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With The Editors

Keep Your Feet on the Ground

On the train coming in this morning we heard a man in the seat behind us doing some worrying over the situation in Russia. "Looks desperate," he said, evidently after a glance at the headlines in the morning paper. "Never looked worse," chimed his companion.

Maybe so—but you will get a less frightening perspective if you try to recollect even a small percentage of the shocking news headlines which have temporarily commanded your goggle-eyed attention since this war began. Many events seemed really crucial at the time. None were. Otherwise the war would be over and Hitler would be exultant. Instead, he's probably a darn sight more worried about the over-all war outlook than you are.

Not so long ago the news spotlight was on Crete. Before that it was Greece. Before that Yugo-Slavia, the German drive across Libya to the border of Egypt, the British ship losses (now sharply declining), the Nazi air attack on England and the much threatened invasion which never came off and probably never will, the fall of France and so on back to the start of the nightmare.

Each change is like a new inning in a kind of deadly baseball game—except that the side with the most runs doesn't win automatically after nine innings. In a true sense the game is tied; for certainly Britain has not been defeated; Hitler is not victorious; and whatever happens to Leningrad, Moscow, Odessa or even to the Red Army itself there are many more innings to come.

Consider the following items broadcast by German radio:

"We are inclined to see in the British determination to hold out longer a terrible piece of military ignorance."

"Gigantic air battles have occurred almost daily. But these air battles are not fought over Germany or France or elsewhere on the Continent, but in the air over the British Isles. The Churchill lines have begun to sway even before a German soldier has set foot on the soil of the British island."

And this one from Rome: "The Italian population knows that the total defeat of Britain is only a matter of a few days now."

That was more than a year ago. And Axis boasts then had a more plausible ring than they have today. Save some of your worries for the headlines of next month and next year and the year after. The world is a very big place; and Hitler will be added to the considerable list of temporary Big Shots who learned that it could not be mastered.

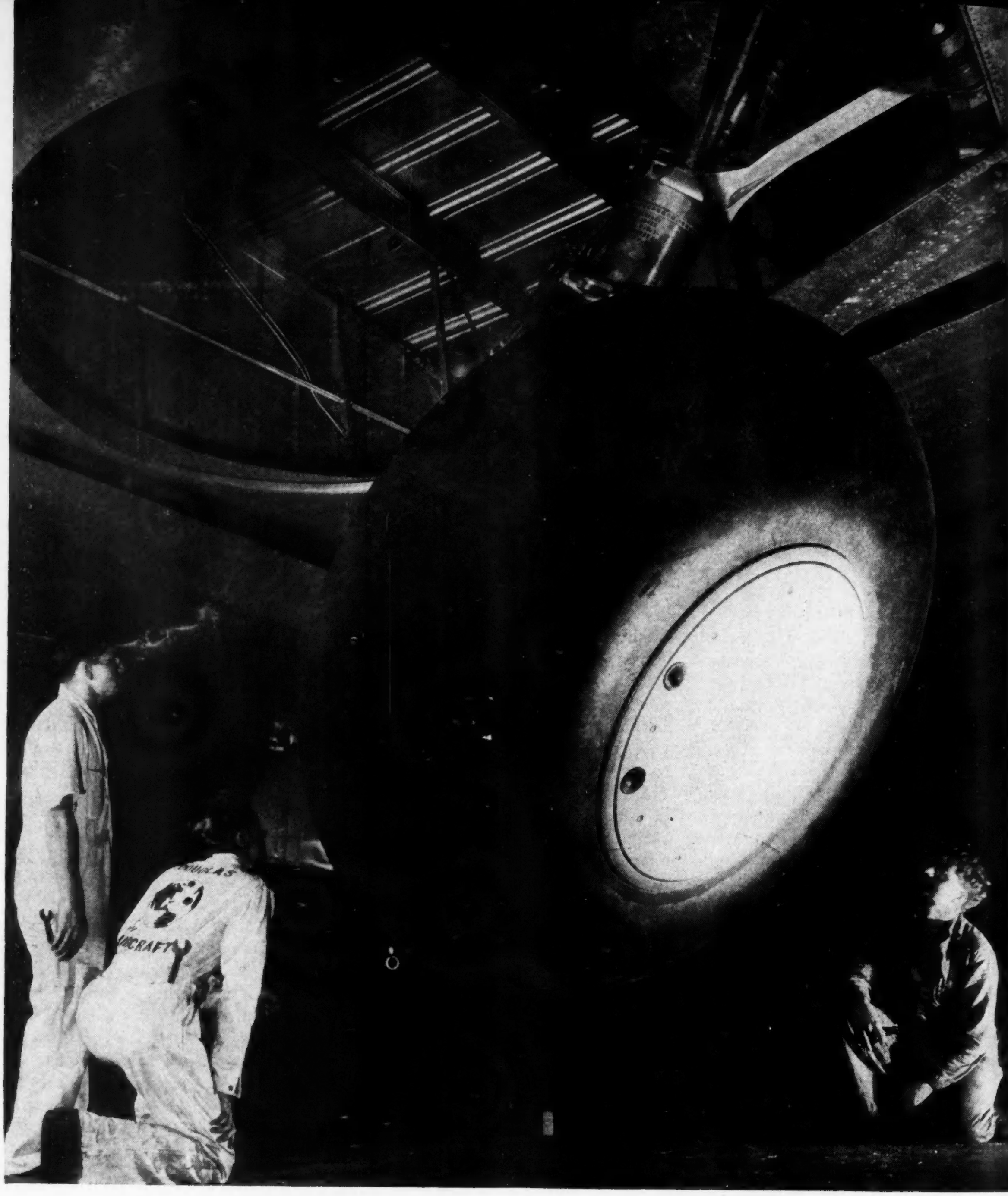
*** IN THE NEXT ISSUE ***

The Danger of a "Do Nothing" Investment Policy

By J. S. Williams

Divergence in Business Outlook for the Fourth Quarter

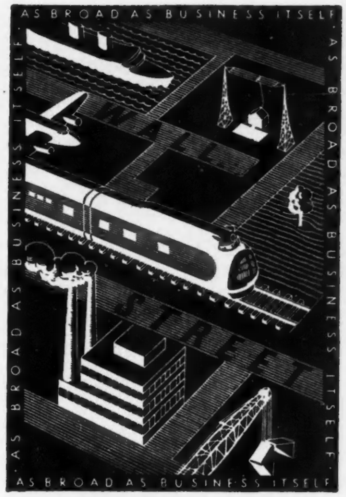
By Ward Gates



The world's biggest tire on the world's biggest airplane—a Douglas bomber for the U. S. Army—symbolizes more simply than anything else could the epochal growth and progress of the kingpin of war industries. Already big, the aircraft industry is destined to employ more workers than the motor industry ever did—destined, too, to play a dynamic role in war and peace. See pages 567 and 576.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



The Trend of Events

IN THE PACIFIC . . . Up until recently the Roosevelt-Hull policy toward Japan was to play for time. We could not lightly risk a show-down in the Pacific as long as the potential threat confronting us from the Atlantic remained so serious. But now the situation has changed and the Japanese militarists are squirming uncomfortably as they find themselves gradually forced toward an essentially defensive position. Critics who mistakenly accuse the Administration of "appeasing" Japan should now be able to see that its policy was prudent and wise.

The time that has been gained finds the strategic position of Britain, the United States and other allies—potential or actual—much strengthened, while that of Japan is considerably weakened. We are now speaking the language that the Japanese realists understand—no bluffs, no double-talk. We are moving firmly to reinforce a Far East coalition powerful enough to deter Japan or to assure her defeat if she should be so foolish as to choose war.

Singapore, the Dutch East Indies and the Philippines are being continuously strengthened. Our powerful Pacific fleet, cooperating with not inconsiderable units of the British Navy, is ready for any possible action. We will not only continue economic aid to China but are sending an advisory military mission. Finally, we are going to do what we can to aid Russia, and the significance of our pending shipments of war goods to Vladivostok is obvious. Should all of Russia fall to Germany and Japan, the resulting physical merger of aggressor forces would establish an intolerable threat uncomfortably close to Alaska. We do not intend to permit that if we can help it. On the possibility that European Russia may be conquered, we are taking the initial steps in a policy aimed at assuring so far as we can the maintenance of a Russian government and effective Russian fighting forces in Siberia.

If this be "encirclement" we are all for it. The tables are turned and Japan is now taking some of the distasteful medicine she had been dishing out to us while she could get away with it without real risk of war. We have a hunch she will take it. If not, disaster will be hers for the asking.

UNSETTLED ISSUE . . . In taking possession of the great ship building subsidiary of the United States Steel Corporation the Government ended an intolerable strike but did not settle the issue which caused it. The strike was an unsuccessful effort to force the company to accept a "maintenance of membership" agreement under which it would automatically discharge any union mem-

ber employee who ceased paying dues or otherwise incurred the disfavor of the union bosses. This is a modified form of the closed shop under which a man's right to work is at the mercy of unregulated private organizations known as labor unions, to which he must pay tribute in amounts which usually are also beyond his control.

The head of this particular union expresses complete confidence that the Government, as the new employer, will grant the concession which the private company refused. We wonder. Mr. Roosevelt has announced that no decision has been made, a fact which seems to imply that the problem is regarded as one requiring careful study. In the name of common sense, what proper decision can a sovereign government make other than a flat negative?

The general attitude of the Government toward its employees has been that they have the right to organize if they choose but that their right to strike is not recognized. In other words, strikes will not be tolerated and, if attempted, will be broken. Well, these shipyard workers are now employees of the Government. If they are granted a partial closed shop, would not a full closed shop and check-off of dues be equally valid in principle? And if valid for Government shipyard workers, why not for the employees of the Post Office, the Department of Justice and all other Federal workers?

If the Government bows to this union's indefensible demand it will thereby hand ambitious and unrestrained labor bosses a club with which all defense industries can be forced to accept the closed shop or face threat of confiscation by the Government.

DEFENSE PROFITS . . . Reactions to the matter of profits in our defense economy are of two general types: (1) exaggerated allegations by politicians, striking unioneers and left-wingers as to "profiteering"; and (2) excessive griping over taxes by business men and investors. The truth, as it most often is, is "in between."

According to the National Industrial Conference Board, total net income of 421 industrial corporations in the second quarter of this year was only 1 per cent higher than in the first quarter, although the increase in volume of industrial production between the two quarters was 9 per cent.

The Conference Board further observes that 173 companies, for which detailed reports were available, set aside for taxes 57 per cent of total income before taxes in the second quarter, against 46 per cent in the first quarter. Finally, the Board's seasonally adjusted index of corporation net income was only 159 for the second quarter (the average of 1935-1939 equalling 100), as compared with 163 in the fourth quarter of last year, although over this interval the Reserve Board index of production had advanced from 134 to 149.

All of this amounts to proof of what has for some time been obvious, inevitable and justified: namely, that business earnings are not increasing in the usual ratio to increased volume. But why should they? This is not a private enterprise boom but a Government-financed armament program. If we could joy-ride through it with normal, peace-time taxes and profit margins the net earnings of industry on present huge volume would be fantastically large, not only as compared with recent pre-war years but even as compared with the most prosperous years of the fabulous '20's.

Moreover, take another look at that quarterly index. The figure 159 for the second quarter means that after allowance for radically higher taxes American industry earned 59 per cent more than the average of the years 1935-1939. This is not profiteering, but neither is it profitless prosperity. For many heavy industry companies it means considerable profits versus none for the five pre-war years, and for their stockholders some dividends versus none.

FOOTNOTES TO HISTORY . . . Senator Nye opines that future historians will put us down as the biggest saps of all time for needlessly trying to pull England's chestnuts from the fire. The Senator's record as a prophet is not such as to give us confidence that he can forecast what the historians of a century hence will be writing about. As for ourselves, we haven't the slightest idea.

Perhaps in John Doe's "History of World War II," published in the year 2141, there may be found on page 907 a reference to the German drive through the Ukraine in the late summer of 1941. On the other hand, that very page might moralize on such curious bits of history as the following:

The decline in the number of suicides in the United States in the year 1941, explained by economists as due to generally higher incomes but interpreted by psychiatrists as a complicated result of war—something about knowledge of the death of so many other people in the war satisfying a preoccupation with death.

The paradoxical fact that during the war the price of aluminum was sharply reduced, although the metal was extremely scarce and the biggest producer had long been charged with being a monopoly; while the prices of cotton and wheat advanced greatly, despite no significant expansion in demand and despite large unsold and unsaleable surpluses.

The report of British medical authorities that after enduring more than a year of persistent bomb attacks the general state of health in England was the best in many years. Some said this was due to dispersal of slum people to the rural areas; some argued it was due to reduced unemployment; others contended it was brought about by the English breathing more fresh air, what with so many windows and doors blown out by bombs.

In fact, it is even possible—though we would not bet on it—that John Doe's "History of World War II" may contain a very small footnote somewhere referring to a Senator named Nye who achieved passing notice as an opponent of American aid to Britain in the fight that brought Nazi Germany to her knees in the year 1943.

As I See It!

BY CHARLES BENEDICT

A PRAYER

Dear God, — give us the vision and the intelligence to work out our own salvation. Give us unity.

THE great majority of Americans find it hard to conceive of a world different from the one which they have experienced in their lifetime. Even those who are better versed in ancient and medieval history than the average are unable to visualize the return of desperate insecurity for mankind in this twentieth century, because comparable periods of the past have been presented to us under the glamour of a romantic struggle.

It would be well to dust off these volumes which made such fascinating reading in the security of our well-equipped homes, and peruse them again stripped of their adventurous aspect: the ragged shirt, the torn doublet and hose . . . that romantic insecurity of starvation . . inadequate shelter and clothing. With murder a common everyday occurrence, and hired assassins lying in wait. Where men were old at twenty-five due to the rigors of life, and women were spoils of war. Possibly then would we be able to realize what we are headed for if Hitler wins, for Europe is already experiencing this misery and desperation.

Today, as in the Middle Ages, banditry, looting, pillage and murder have become everyday occurrences in three-quarters of the world, and the bloody hands of the greedy adventurers who are conducting destruction on a grand scale are already attempting to get a grip on South America. So close to us is disaster!

Only the lack of understanding and the inability of some to visualize the dangers confronting us keep us from taking a united and determined stand against this menace to our homes and our families.

Ewing-Galloway Photo

The President of the United States, ignoring the possible inroads on his health, is straining every nerve to save us from the disaster which has overcome so many peoples. This, despite the strongest kind of opposition. His gallantry in this great struggle is very moving.

It is not, as some would like to have us believe, the weakening influences of democracy that divide us. Rather, the present situation is due to the clamor and confusion deliberately created by those who for various reasons of personal interest seek disunity among us. These are tactics which prevail in every type of goverment, but which in a dictatorship are ruthlessly liquidated.

It must be evident to all honest thinking people that President Roosevelt is courageously trying every means short of a "shooting war" to solve our problems—preferring to give of our substance rather than our lives. This is wise. War is an adventure which takes many unexpected turns.

Yet the enemies of the President cannot be pleased. They call him "unfit" when he is cautious and a "dictator" when he demands action. We must pay no attention to them. Nor be misled by them.

And—if the time should come when our treasure is not enough and the President issues the call to arms—we must not hesitate.

The shackles of slavery are not for us, nor will we who are descendants of free men permit thieves to loot us of the fruits of our efforts, and of those who (*Please turn to page 594*)

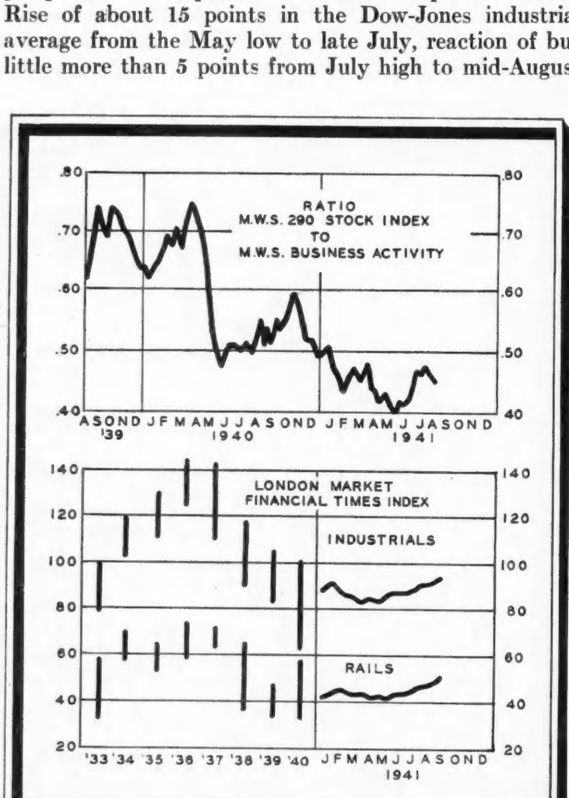
Security Price Outlook As New Market Forces Take Shape

With a test of the market's summer recovery trend probably just ahead of us, at or under the average highs reached in July, we think it prudent to defer new purchases for the present.

BY A. T. MILLER

Summary of the Fortnight: Following drying up of reactionary tendencies, creeping rally lifted the Dow-Jones industrial index 2½ points, the rail average by a small fraction. Reflecting firm demand, our averages of 15 high grade equities, 10 medium grade preferreds and 10 speculative preferreds are within small fractions of the summer highs.

It is not an impressive market. Yet looking at the perspective of the past three months the picture is this: Rise of about 15 points in the Dow-Jones industrial average from the May low to late July, reaction of but little more than 5 points from July high to mid-August low, rally of 2½ points from mid-August up to this writing. Volume has been at a very low average over the past month but has tended to expand at least moderately in the periods of price improvement.



So it can be said that as far as it goes the recent inconclusive technical evidence points more to the hopeful side than otherwise. But the market is very close in points to an important technical test. If the intermediate recovery trend begun in May is to be maintained and extended the industrial and rail averages should rise soon by clear-cut margins and with increasing volume through the July highs of 130.06 and 30.88 respectively. As this is written the gap is less than 3 points in the industrial average, less than 1 point in the rails.

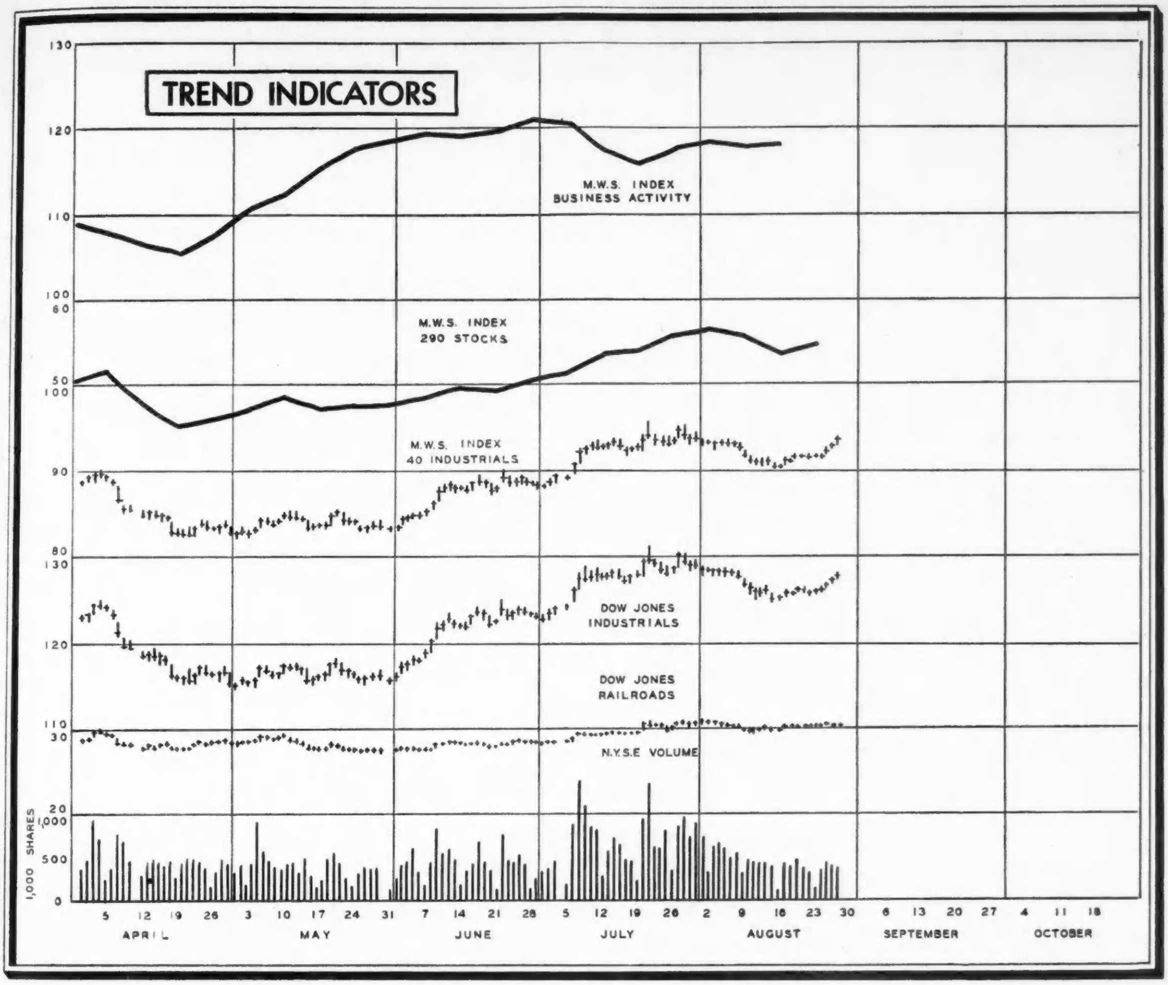
On the other hand a demonstration of effective resistance at or below the July highs would be discouraging and could hardly fail to turn emphasis to the question of a downside test of the 124-125 range.

Believers in seasonal precedent can point hopefully to the fact that in six out of the past seven years—the single exception having been 1937—the market enjoyed post-Labor Day advances. In each of those six years stocks bought near the close of August or within the first few days of September showed substantial profits available at highs made in November or December.

But all that precedent really proves in this matter is the obvious: namely, given a bull market trend or continuing intermediate uptrend, prices rise after Labor Day. In bear markets, quite naturally, they decline. Usually, however, the period has not been one of stalemate.

We have observed before that we are most reluctant to attempt applying the terminology of bull or bear trends to the type of jitterbug market that has existed in recent years. These terms imply sustained price movement in one general direction over relatively lengthy periods of time. But there has been no sustained trend since the market fell under the spell of, first, recurrent European war threats in spring and autumn and, second, of the war itself. On the contrary, for more than three years, the market has been notably erratic.

Perhaps the most apt definition is simply that, ever since the termination of the 1937-1938 bear trend, the market has fluctuated within a "broad range of inde-



termination." Yet the long range technical pattern, as well as the existing psychological setting, suggests that the *potentiality* of sustained movement—whether it develop fairly soon or be further delayed—is considerably more on the side of advance than the side of decline.

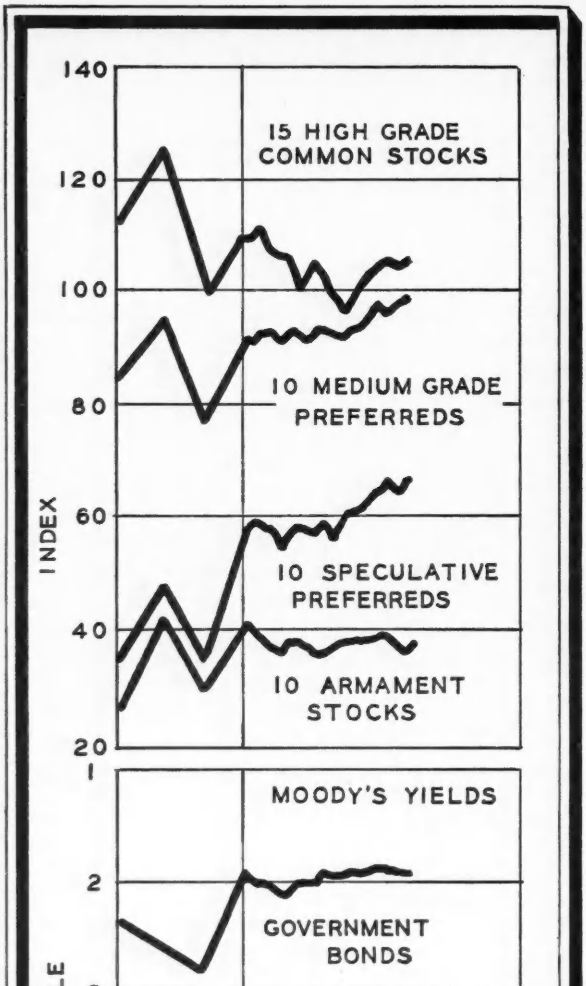
There is a marked tendency for the swings of the pendulum to become more and more restricted, at a generally low level of prices and an extremely low level of volume. Since 1938 there has been a general tendency toward narrowing spread between yearly highs and lows. The spread was approximately 59 points in the industrial average in 1938; 34 points in 1939; 41 points in 1940, the bulk of this being recorded in the 10-day collapse following the German break-through in France; and only some 18 points this year to date.

The bottoms for these erratic years have been as follows in approximation: 1938, 99; 1939, 121; 1940, 112; and 1941, 115. Thus the market has persistently been working itself toward—if it is not already substantially in—a "corner": what the chartists call the apex of a long term triangle. Unless one believes the natural instincts and emotions of investors and speculators are going to become extinct—and we don't think so—this persistent constriction of the range can only be regarded as the stage-setting for something much more dynamic.

Could the dynamic change be in the form of decline? We doubt it very much—and in saying so we take into account both the long technical background and, what is more important, the very extensive period of psychological adjustment among investors and speculators to the realities and contingencies of war.

For more than fourteen months the market has weathered all storms without breaking below that 112 level that was reached on the tremendous emotional shock incident to the fall of France and our resultant immediate fears for the survival of Great Britain and her fleet. We are convinced that that period marked the highest degree of investment fear that one could reasonably anticipate during the course of this war.

At the present time Britain is infinitely stronger than a year ago, with U. S. aid pouring forth in important and ever-increasing volume. Germany is weaker than a year ago by the margin of her considerable losses in the Russian campaign. No doubt these losses are substantially exceeded by the Russian losses but there is no evidence—even in the claims of Berlin—that the Red Army is near the point of disintegration. On the contrary the recent evidence provides more than a wishful-thinking basis for believing it probable that through the winter and on into next spring the Germans will still



find themselves with a fight on their hands somewhere in Russia.

We can see at least a possibility of a gradually crystallizing investment belief that the Germans are doomed to lose the war ultimately but that it will take a long time, possibly two years or more, for their resistance to be worn down. And we can see more than a possibility that the specter of war and post-war inflation through astronomical Government spending will not only influence the great bulk of investors to hold on to their equities but in due course attract presently idle funds.

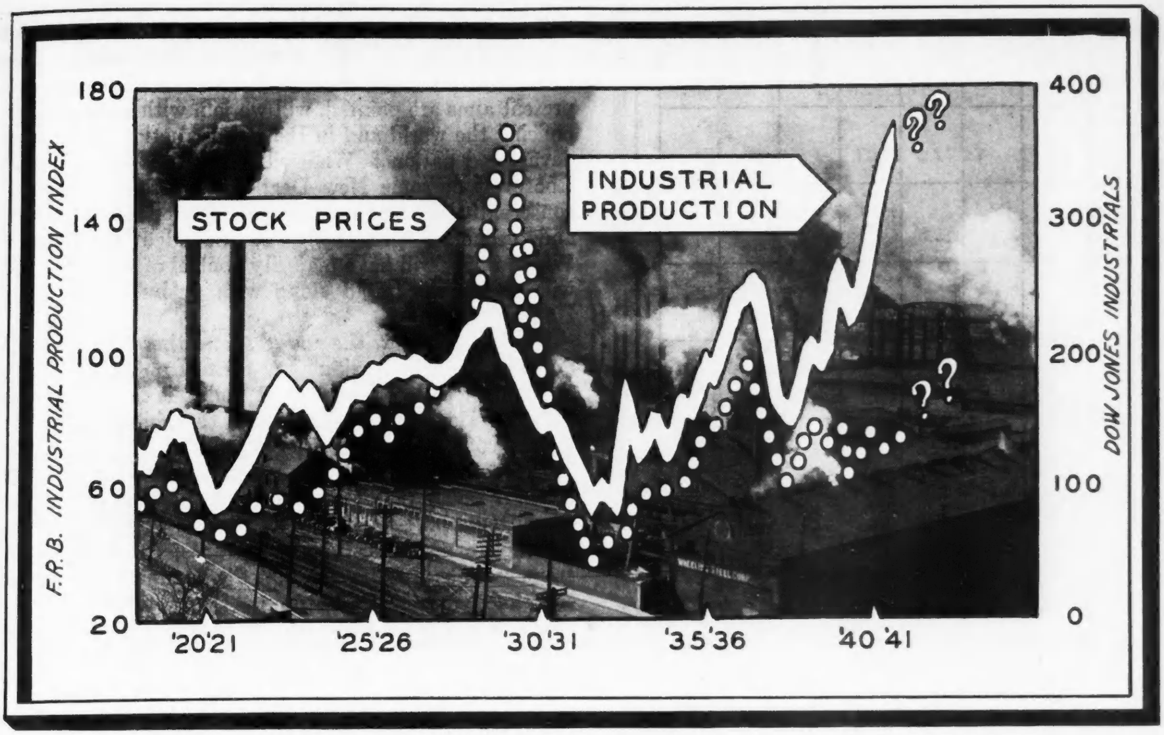
In none of this have we intended to take the position that the market is 100 per cent shockproof or that reaction—and possibly stiff reaction—is out of the question. Moreover, we ourselves are by no means convinced that this market is ready to go places on the upside right away. But if we are correct in our conviction that the lows of last May in the averages represent about the worst that need be allowed for, we have a valid basis for advising our readers to avoid an excess of pessimism when the newspaper headlines are scary and to entertain an open mind on the upside potentialities. Certainly it would seem to be a situation offering income investors choice of many good yields, relatively small risk of serious decline, promise of eventual appreciation.

Since changes for good or bad in the London market have often in recent years preceded changes on the New York Stock Exchange, it is worth noting that London for some time has been giving a far better account of itself than New York. British industrials at this writing stand about 67 per cent above the 1941 low and only some 6 per cent under the highest level of early 1940 when most people were wondering when the "phoney war" would amount to something. In contrast the Dow industrials now are only 14 per cent above the 1940 low and are more than 16 per cent below the 1940 high.

The English are not idealists nor wishful thinkers in matters of finance. Neither is the London equity market "rigged" by the British Government, for whether equity prices are high or low makes little or no difference to the war effort. We can only conclude that British investors are less psychologically depressed by the war, terrific war taxes and extreme industrial and commercial regimentation than are American investors although it would seem that the latter ought to have less to be afraid of. We must also conclude that British investors have a naive faith that equities will still be worth substantial prices in the world of tomorrow as income-producing shares in *private* enterprise. They could, of course, be wrong. Our hunch is that they are right.

In the recent cross-currents better than average strength has been shown by the following stock groups: aircraft, amusements, dairy products, drugs and toilet articles, liquors, tires and variety stores. It is significant that most of these are large beneficiaries of the great increase in consumer purchasing power and are free of war-economy difficulties other than the higer taxes common to all enterprises.

Conclusion: We do not advise trading purchases at present but believe investment funds should remain 60 per cent to 80 per cent committed, depending upon the prudent margin of liquidity suggested by individual circumstances.—Saturday, August 30.



No Post-War Depression—Why?

BY LAURENCE STERN

THE average investor is worrying a lot about "the terrible post-war depression." He is just as sure of it as he was sure of the endless prosperity of the magical "Hoover New Era" back in 1928 and the forepart of 1929. And he is probably just about as far wrong.

To such unreconstructed conservatives as still believe that what the stock market most needs is a return to the "normalcy" of small government and unregulated big business, I can offer no assurance whatever.

It is hard to conceive of a reversion to political and social philosophies under which government in former times stood passively by, wringing its hands in political dismay, as the searing depressions alternated with the recoveries under the mysterious workings of the "natural laws of supply and demand."

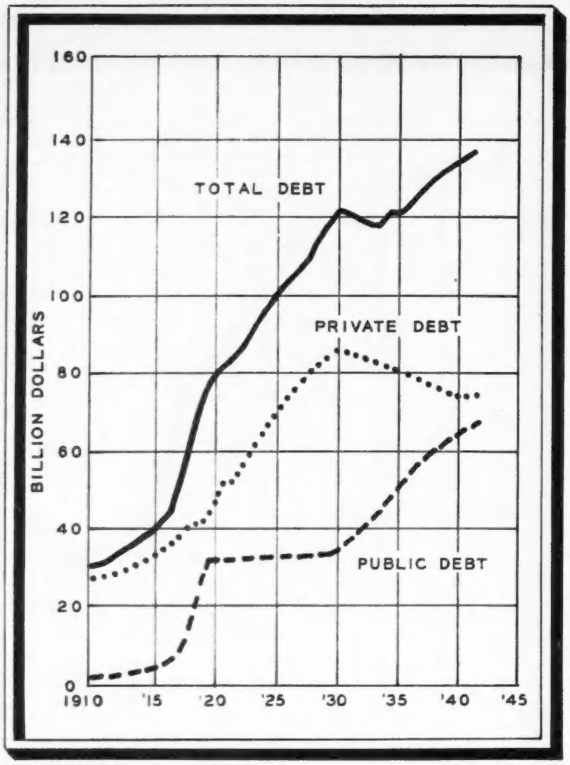
But let us suppose for a moment that there *is* such a resurrection ahead. The war is over and Hitler has been liquidated. Good old-fashioned conservatives are writing the ticket at Washington. A start is being made on the long-deferred job of balancing the budget, reducing corporate taxes, putting the labor unions in their place, encouraging private capital to seek productive investment.

Do you think that would automatically guarantee booming business activity and a wildly rising stock market? I don't. I think it would guarantee "the post-war depression" that this article is talking about.

Not since the fabulous '20's—now rapidly receding into ancient history—has there been any period of economic recovery to which private investment contributed the backbone. For more than a decade the adequate functioning of our economic system has been becoming more and more dependent upon the spending of borrowed government money in large amount. I state that simply as a fact—without cheering for it, without debating the whys and wherefores, without theorizing as to how it might have been otherwise.

And now, on top of what has gone before, armament demands are spreading a flood of government money which makes former New Deal hand-outs look like a scattering of nickels and dimes—and priority for defense is pushing us into a series of economic dislocations even more violent in their own way than were the dislocations of the great smash of 1929-1932 in a different way.

If within any reasonable time span after the end of the defense emergency—say five years—you can imagine



private enterprise unscrambling these eggs and cooking a dish of its own to the satisfaction of the American appetite, you are more optimistic than I am. Since we are concentrating here on the moot question of "the post-war depression" — which presumably would develop pretty promptly — we will let others argue whether in some more distant future private enterprise will or will not get back the reins and handle them to the contentment of the populace.

Well, then, what is the most likely prospect when the war ends?

Before we explore this question we have to set up some alternative hypotheses as to *how* the war ends. If Germany brings Britain to her knees, obviously there could be no foreseeable end to American armament activity. The resultant condition—armed camp existence or defensive war—certainly could not be called prosperity but neither could it be called deflation or depression. Economically and financially, it would be more of the same thing that we are heading into now.

If the war ends in a negotiated peace, without complete victory on either side, armament *expansion* would cease—if we were adequately armed at the time—as it eventually will do in any case; but we certainly would not risk *disarming* or *dismantling our war industries*. Merely to maintain armed forces at the physical peaks scheduled probably would cost almost as much money as the *current* annual rate of defense expenditures—a rate which is now straining our industrial facilities—although less than will be spent at the peak rate of *expansion* of arms and arms industries.

If the war ends with a complete German defeat we will have the situation we most desire—but the one whose economic consequences are the most difficult to foresee. Much would depend upon the political reaction. Will the American people swing sharply back to isolationism? Will they regard the problem of European political and economic reconstruction as none of this country's concern? Or, as the end result toward which Roosevelt's present aims are pointed, will we join with the British in policing the world and in the reconstruction of the war-devastated nations? Who will be in the White House? Roosevelt or some New Dealish successor? A liberal-conservative of the Willkie type? A replica—in political and economic philosophy—of Coolidge or Hoover? Which Party will have majority control of Congress, and will that majority go along with or buck the White House?

No one can know the answers; and therefore I can set down only the following very general opinions: (1) If the main trend of government policy is in accord with the New Deal philosophy or with the philosophy of the liberal younger wing of the Republican Party, an economic collapse will not be permitted to happen when the war ends; (2) if some other governing philosophy permitted a post-war crash, its authors would have written their own political death warrants; (3) I find it extremely difficult to believe that the dominant politicos of the time could be that stupid.

The rest of this article will be based on the assumption that the ultimate peace will leave Britain and the United States the dominant world powers or at least in control of their own destinies. On any other assumption there can be no prospect of even partial disarmament; and it is on the faulty premise of a radical deflation of the armament activity that the fear of post-war depression chiefly rests.

For perspective a brief review of economic and financial trends following the World War a quarter century ago is worth while, although I intend to venture very few guesses as to how much—if any—of this history will be repeated.

The highlights of the situation immediately after peace came in 1918 were these: a tremendously inflated money supply available for both speculation and productive investment, a release from the psychological inhibitions characterizing speculation and investment during war, an increased demand for civilian goods—domestic and export—in excess of the decrease in demand for war goods. For some weeks after the Armistice there were no significant fluctuations in the composite indexes of commodity prices and industrial activity, while the stock market (Dow-Jones industrial average) reacted only from 88 just before the Armistice to a low of 79 in February, 1919.

Within a very few months a period of dynamic inventory expansion and commodity speculation got under way. The changes between the end of the war and the peak of the initial post-war boom in the spring of 1920 were these: Rise of nearly 23 per cent in wholesale prices, but apparently of less than 5 per cent in the physical volume of industrial production. From the early post-war low to high late in 1919 the industrial stock price average advanced about 50 per cent to a level higher than had been reached at any time during the war. Price-earnings ratios—the capitalization placed upon corporate earning power by investors and speculators—advanced even more sharply. As a notable example,

United States Steel common's highest war-time price was only 8.1 times the dividend paid in that year—1917—while its lowest price in the "inventory depression" of 1920-1921 was 14.4 times the dividend paid at that time.

The 1920-1921 deflation of prices, inventories, industrial production and stock market values was severe, but short—in general character being quite similar to the depression of 1937-1938. It did not result in any serious deflation of the total money supply and its completed adjustments—following the prior election of the pro-business Harding Administration—cleared the decks for the subsequent era of tremendous expansion in bank credit, capital investment, construction, industrial and utility facilities. There was a housing shortage to be made up. Several young industries were heading into their period of most rapid growth, the most important being the automobile and electric utility industries. Export trade, in goodly degree financed by American buyers of foreign bonds, held at high levels right through 1929.

No Speculative Bubble

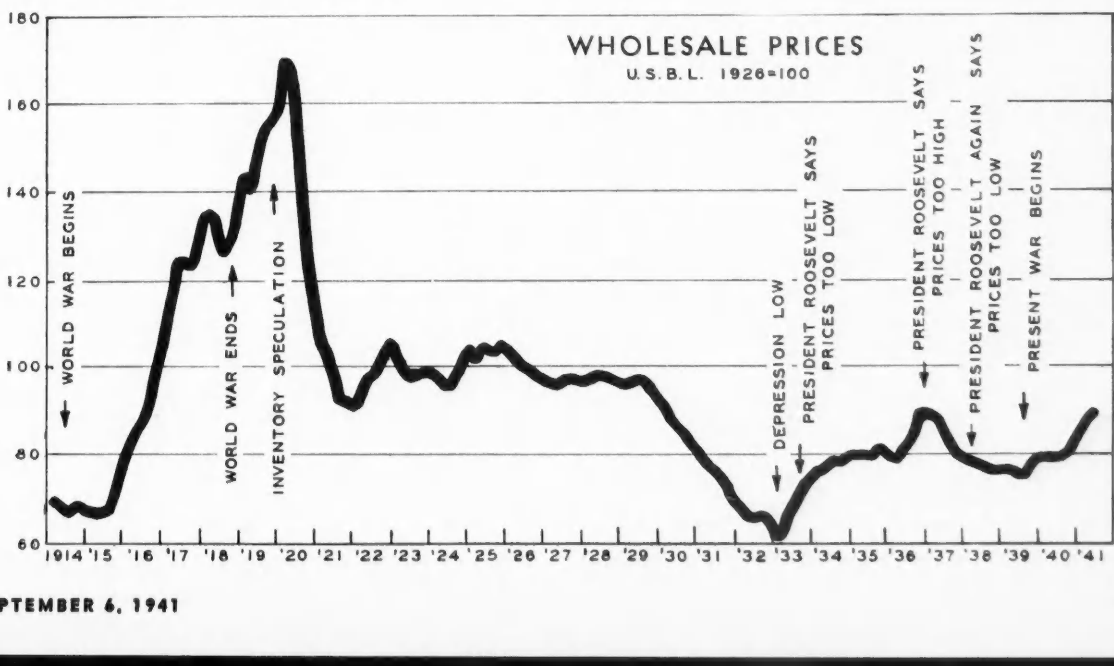
Let us not debate the causes of the great depression that began in 1929. Since it did not hit us for more than a decade after the war, its memory probably has no close relation to present investor fears of a prompt depression after the present war. I myself am convinced that the chief causes for that 1929 debacle lay far less in the World War itself than in the mistakes we made after the war. The greatest of these was the truly colossal bubble of speculative credit that Government policy permitted to be blown up. In that boom the total amount of bank credit advanced to finance pure speculation in prices of securities and land was represented by the kind of astronomical figures we now associate with New Deal deficits. Possibly the next most vital mistake was to raise our tariff skyward while trying simultaneously to maintain our war-created position as creditor to the world. The fruits of this came home to roost in collapsed trade as soon as we ceased extending uncollectible foreign loans.

So much for the perspective. Now for the most likely analogies—and differences—in the general prospect that we will face when the present conflict terminates.

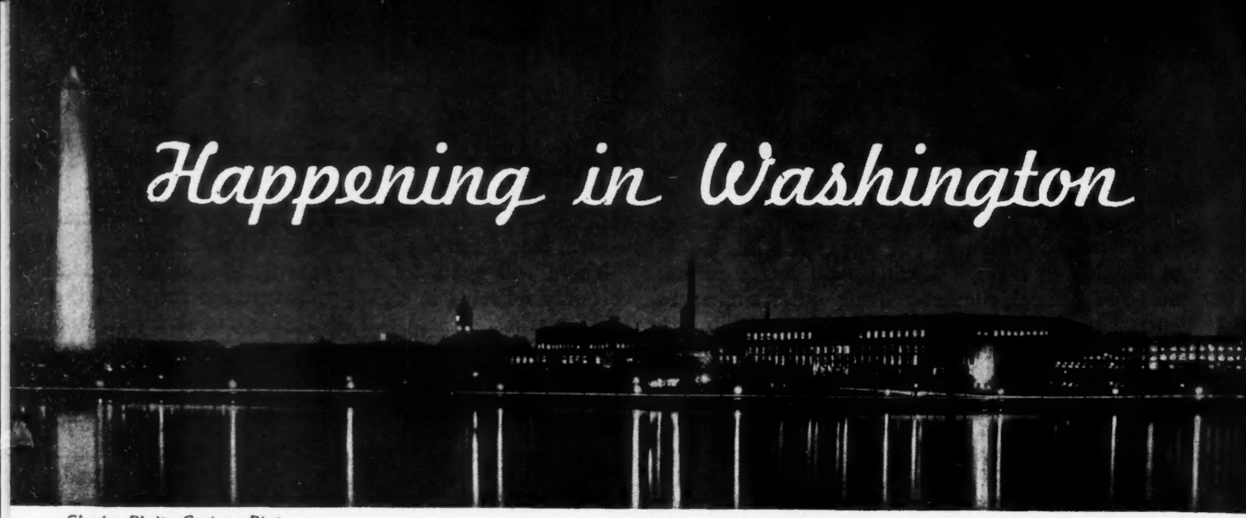
There will again be a psychological release, almost certainly reflected in higher price-earnings ratios for the stock market. There will be an accumulated potential demand for some types of goods, proportionate to the scope of war-time curtailment in civilian production. This may be true of residential building, passenger automobiles, a long list of household appliances and equipment, and in some degree of capital goods for consumer industries. On the other hand, our post-war export trade outlook is highly conjectural; and while war, as usual, will stimulate invention, it is scarcely possible to count on any new-industry increment at all comparable to that provided by the dynamic fruition of the automobile and utility industries in the '20's.

On the whole the prospect for expansion in productive private investment as far ahead as can be projected is definitely and considerably less favorable than it was after the World War. There is certainly scant possibility of a repetition of the speculative credit expansion of the '20's. Even though present Federal efforts to combat price inflation are partial and largely ineffective, I am inclined to doubt that price and inventory inflation for the war period as a whole will get as far out of hand as was permitted in 1919. The price situation, however, would seem to be the outstanding spot to look for trouble in the initial post-war phase. To the extent that excess develops here, eventual correction will be virtually inevitable; and Government efforts to check the reaction would probably be even less effective than the present none too successful efforts to slow the rise.

It would be my guess, however, that the biggest price inflation danger is relatively near term, that there is a fair chance of sufficient change in the political factors—under war pressures—to permit application of more effective controls, the necessary (*Please turn to page* 597)



Happening in Washington



Charles Phelps Cushing Photo

BY E. K. T.

Morale is biggest problem facing Administration today. The country is not behind the defense program as it should be. Recent Congressional actions show this. Morale of drafted troops and reserve officers is bad, but worse is apathy of defense workers, industry in general, and the public. Whether or not the country is being prepared for entry into war, the public must become more enthusiastic, willing to sacrifice, to keep the defense program up to schedule. The problem is being attacked strenuously in a variety of ways.

Defense secrecy is now a boomerang. Because the Administration was not frank in publicly forecasting the extent and effects of the defense and lend-lease programs, there are loud squawks now that civilian activities are being curtailed suddenly as a result. The public was permitted to enjoy a defense boom when insiders knew there would soon be serious shortages of materials. Now adjustment from "butter" to "guns" is too rapid to set well.

Congressional revolt threatened against the priorities system will not get far, but may bring to light the true facts of our materials situation. If Congressional champions of small businesses have their way there will be little material for defense.

Plant shut-downs by curtailment of orders or lack of supplies will soon become serious, threatening unemployment and bankruptcies. Administration is doing everything possible to help such plants, short of trimming the defense program to let them have materials for non-essential production, which is the only thing that will save some of them. Some members of Congress would even do that, and the isolationists are playing on this sentiment.

Production expansion of many materials, now well under way, will not help civilian industries much, if any, contrary to the general expectation. Fact is just leaking out that defense schedules are increasing so rapidly that they will absorb all the aluminum and probably most of other scarce materials no matter how much capacities can be enlarged during the next year or two, and civilian supplies will have to be "stolen" from defense.

Subcontracting of defense work should now become a widespread reality instead of a pious hope. After months of efforts, O. P. M. has got Army-Navy cooperation in altering procurement methods to give small bidders a break and put a premium on farming-out. This may be salvation of small plants outside of defense areas which couldn't get contracts before and can't get supplies for non-defense work. The bits-and-pieces idea is finally on a workable plan, and no longer will a few favored big corporations get virtually all of defense business. Realization of effect on civilian morale was the argument which finally converted the Army & Navy to the idea.

New priorities plan gives O. P. M. complete control of all industry, life and death power over any business. It was thought necessary because myriad of different kinds of priority forms and preference orders, designed for specific purposes, got the system tangled up in itself. New system is based on absolute control of supplies and allocation of them from month to month where and as deemed most necessary. Every sort of commodity is now under priorities.

Compulsory orders may now be placed for defense contracts, or anything O. P. M. labels as such, and few excuses will be accepted for refusal. This puts teeth in priorities system, since preference ratings are mandatory and delivery dates must be met, or else. All other business must be put off, including earlier defense orders if O. P. M. says so. It will put more order and system into defense production and deliveries, but a great part of non-defense business will exist only by sufferance of O. P. M.

Inventory control feature of new priorities plan is most drastic business regulation imaginable. No one can buy or sell any commodity if it increases the buyer's inventory, without special dispensation from O. P. M. Nor can a plant stock up to increase its rate of production. This applies to all business. It was aimed at hoarding,

but it is an ideal tool for economic planning, when coupled with O P M's new powers of materials allocation.

Social security amendments will be before Congress soon. Plant is to ask upping of employment tax, now 1 per cent, to curtail inflationary spending. For same reason, to add a new payroll tax to provide a dismissal wage to industrial workers. Old age benefits and taxes may also be extended to farm and domestic help. Also, S. S. Board wants Federalization of state-operated unemployment compensation systems, with power to divert reserves of industrial states to pay benefits in states with more unemployment.

Oil investigation by Congress is aimed at giving the public the real facts of how short gasoline and fuel oil are and what is being or can be done to increase transportation facilities. Data on supply and use of both U.S. and British tankers is considered a military secret, but there are many aspects of the alleged shortage which can be brought into the open. One by-product not anticipated by the investigators may be uncovering of secret plans Ickes has to control the oil industry in ways not related to the tanker shortage.

Utilities are mapping a big advertising and public relations drive to get public support against increasing Federal control and public ownership. They fear that many plans being advocated by the Administration because of actual or alleged shortages of power for defense may be cloaks for getting major utility systems away from control of state commissions and private stockholders.

Facilities allocation may be next development of priorities system, under which important plants will be assigned to particular types of output exclusively, and all buyers must go to these only. This would increase efficiency but eliminate competition and varieties. If adopted, it will be tried first in the steel fabricating industry. Result will be cartelization of industry on European plan.

Price control is being tried desperately by O P A C S to stave off inflationary price increases without much real legal authority or policing powers until Congress gets around to enacting a new law, many weeks hence. At first it jumped only on prices which jumped out of line, but now O P A C S is issuing ceiling orders where prices are still normal but where anticipated shortages indicate that increases and speculation could be expected soon unless there is control.

WASHINGTON SEES:

Defense program is in a critical stage, meeting much criticism and resistance, going too slowly to suit some, disrupting civilian business too much to suit others. Congress is demanding more facts of present status and future program, asking investigations and reorganizations. Priorities system is hitting business hard, closing plants, causing unemployment, reducing supplies. The defense boom is over with a jolt for many industries, and civilian morale is suffering as a result.

The Administration is keenly aware of this condition and is moving to remove some irritants while defending the program and set-up in general. But the demands of defense and lend-lease are so stupendous that few concessions can be made to let supplies go to business as usual. Nor will Roosevelt permit any reorganization which admits previous errors of consequence or takes control away from him and his appointees; reshufflings are going on constantly, but the general pattern of the defense program will not be changed, regardless of outward appearances.

Wage control is left out of pending price control bill, but Administration is quietly working on a plan for a wage stabilization or adjustment board designed to accomplish much the same results but in a form more acceptable to labor. It will come after price control is in effect and living costs presumably stabilized, but in the meantime labor costs probably will mount. Much depends on the success of the vountary defense-industry wage stabilization agreements, which aren't working out quite as well as was hoped.

Oil pipelines will be relieved of heavy fines or divorcement from major-company control as threatened by pending Justice Department suits charging illegal rebates to owner-users. Pressure of defense needs for new lines induced Justice to tone down its demands, and a permanent settlement, very acceptable to the oil industry, will be made shortly. Other anti-trust actions against the industry may be put on the shelf for the duration of the emergency.

Lend-lease program is subject of a whispering campaign charging British misuse of ships and supplies obtained. Constant rumors that supplies are being resold in this country or exported in competition with U.S. sellers can't be pinned down by actual, proven instances. Roosevelt took notice of the situation to denounce it as Nazi propaganda, but the rumors continue and many people believe that where there is smoke there is fire. The British may be induced to permit more publicity on lend-lease transaction to offset such grapevine reports.

Perhaps O P A C S distrusts the automobile agreement to cut production or maybe the commission is prompted with a desire to assist the industry in achieving its reduced output, but in any event, one of the first acts of the new priorities set up will be to allocate to the automobile manufacturers just sufficient supplies of steel, copper, aluminum and other critical materials to build the agreed number of vehicles. And, just to prevent any embarassment by the inadvertant production of more than the alloted number, the board will see to it that no overlooked inventories of such materials will be worked in to production through oversight.

To conserve gasoline, it is currently being pointed out. that the gasoline tank in the backyard of the petroleum conservator holds only 500 gallons. In view of the Secretary's limosine, station wagon and other vehicles needed for his household, such a reserve supply is conceded to be conservative indeed.

The Impact of War Rationing

• ON INDUSTRY
• ON INVESTMENTS

BY JOHN D. C. WELDON

Triangle Photo
"Packaged" automobiles destined for the blast furnaces to provide more steel.

ALTHOUGH to many it is almost unbelievable, this country, which has long been regarded as possessing almost inexhaustible quantities of nearly every natural resource, is facing a period of scarcity in many items. Once, our abundance of production capacity was considered to be the economic curse which fostered depressions and many so-called experts were of the firm opinion that never would the time come when the nation would be able to consume everything its industries were able to produce. Even the Government, in an effort to raise prices, went so far as to destroy surplus quantities of certain commodities—"the little pigs" for instance—and gave away many other items which were considered to be a drag on the market for all time. We paid the farmers not to produce and bought various surpluses with public funds to prevent their sale at prices which would ruin the producers. We "rationalized" industrial production with the fatuous N. R. A. All of this to avert or ameliorate depression influences and to maintain employment at a stabilized level.

Now the reverse of the former conditions prevails. Under the stimulus of defense preparation we are consuming—or have the need for—more materials than we are able to produce. We have achieved the goal of capacity production in industry but with the result that not a few industries are reputedly faced with almost complete stoppage of production and many thousands of workers are in danger of a serious period of unemployment. The fundamental reason behind these conditions is that there are just not enough raw materials to go around when any abnormal demand for them appears. In other words, the long boasted of wealth of basic commodities has been only relative and in truth, the country is relatively poor in many items under the stress of emergency requirements. All of which is bound to have a serious bearing upon the nearer term prospects of many industries and companies, as well as upon the pocketbook interests of numerous investors whose income—and even capital—may be jeopardized by recent developments.

Generally speaking, producers of basic or raw materials will probably fare the best as far as continuous operations at capacity levels are concerned. With the manufacturers requiring all possible supplies of such products in their own sphere of action, the material producers such as the steel makers, copper miners, pulp manufacturers, collieries and similar enterprises, are bound to be able to sell almost everything they can produce. But, since mere capacity operations are no longer the sole determinant of profits, it is not likely that producers will benefit as fully as in the past from their ability to produce increasingly large quantities of materials for an assured market. Higher production costs, wages and taxes will determine eventual profit margins. And when demand returns to more normal proportions the raw material producers will have to solve the poblem of what to do with more recently acquired production capacity.

Then there is a group of industries that are not actually producers of raw materials but who process raw materials for further manufacturing. This group would include the chemical manufacturers, the copper fabricators, rayon and synthetic fibre makers and the like. Since these industries serve both the military and civilian needs of the country, their quotas of basic raw materials are practically assured within the boundaries of available supplies. Even in this relatively favored group there is a catch. The catch lies within the "available

supply" limits. Relatively recent official estimates, for instance, place the potential copper shortage at as much as 470,000 tons and that of zinc at comparatively high levels. Since these estimates do not consider possible civilian requirements it is not difficult to see that manufacturers of civilian goods of which brass, copper or zinc, are an integral part are going to have a difficult time to continue in business unless they are able to find suitable substitutes which are not also required by the Government in its defense program.

The same thing applies to aluminum although in this instance the aluminum manufacturer has also been the major fabricator and the only changes that have been made in the aluminum business, apart from a heavy expansion of production capacity, is in the type of product manufactured and the names of the customers. In the chemical group similar circumstances prevail. Growth of chemical production facilities has been phenomenal in the period since World War 1 but despite the great expansion, the industry has not as yet sufficient capacity to supply every demand. The result is that many civilian needs will have to be subordinated to that of the military. The users of plastics for civilian use will be among the principal sufferers from a scarcity of such common items as formaldehyde and wood alcohol. Not that the plastics makers themselves will feel the pinch for most of their products have been requisitioned for defense needs. However, those makers of civilian consumer goods who have depended upon plastics for their products or as a substitute for other materials which are no longer available, will feel the full brunt of the shortage of chemicals. Taken as a whole then, the middle group, which includes the metal fabricators, chemical manufacturers and others in a similar classification, should do as well as the producers of basic raw materials in the matter of high rates of continuous production and reasonably satisfactory profits.

From the foregoing, it must be inferred that those industries which have been making and selling consumer goods will be among the principal casualties of war rationing. In great part this is true, but there are some notable exceptions to the rule. There are a number of companies and industrial groups that have been able to convert a part of their civilian goods production capacity to the manufacture of materials needed by the Government for defense. The automobile truck industry, the railroad equipment makers, die casters and even building equipment manufacturers are but a few of the instances. Passenger automobile and auto equipment makers have not been able to make quite so complete a turnover as others but even here, many of them have been able to adjust themselves to the production of a certain amount of war materials and with a fair amount of civilian consumer business still remaining, will be able to worry through the emergency period; although the results will not make entirely satisfactory reading for those investors who have a stake in them.

A striking example of a manufacturer who has been able to shift production emphasis to Government work is Johns-Manville Company. Making a line of building supplies such as roofing, wall board and similar items normally mostly for civilian use, the company recently reported that it could lose virtually all of its civilian business and still continue to operate at better than 80 per cent of full capacity on defense work. Another instance is Borg-Warner, long regarded as mostly a manufacturer of automobile equipment. Considerably more than half of the company's numerous products are now being used for defense work and only three of its seventeen divisions are not engaged in some work for the Government. These instances could be multiplied greatly if space would permit it.

There has been considerable lamentation in the press and elsewhere over the potential dislocations in the automobile industry due to the restriction of passenger car production during the coming model year. Granted that a reduction ranging from about 26.5 per cent for the first four months to 50 per cent for the full model year to end July 31 next, will mean a substantial decline in production from recent levels but it represents only about 215,000 or so units less than were produced in 1939 and would still be more than 500,000 units greater than in 1938. And to the car production must be added truck output for the largest automobile companies all manufacture trucks of some kind while Chrysler, Ford and General Motors not only are making trucks but also aviation engines, machine guns and other armament and Chrysler, for one, is also busily engaged in building tanks. Defense work will not fully take the place of lost civilian automobile profits but there does not seem to be any likelihood that the automobile manufacturers will be forced to close for lack of materials or that future operations will be conducted at a loss. The greatest hardship will be some temporary unemployment that is almost bound to occur in the transition period from strictly civilian production to almost completely Government work. Even this subject is now receiving the attention of the Administration which—it is now claimed

Wide World Photo

With a real shortage of silk hosiery in the offing most retailers restrict the quantities sold to individual buyers.

—will moderate priorities in certain instances until such time as the transition can be accomplished. However, profits in Government work are relatively thin, at best, so that the earnings outlook for the automobile manufacturers is not all that might be desired.

An industry that may be a true casualty of priorities is the air transport business. Here is a case where the Government is continuing to requisition the industry's equipment and failing to provide replacement facilities. Already there have been proposals to restrict air transportation to official business only, with a system of rationing of whatever space may be available on different flights to those with the most pressing civilian business, after all official requirements have been satisfied. This situation is a particular blow to the industry because it arises at a time when the companies engaged in it were just beginning to reap the benefits of much preliminary good-will work and extended periods of safe flights. In addition to its inability to replace obsolete or requisitioned equipment in anything like needed quantities, the air carriers are unable further to expand their services; are faced with a loss of many experienced pilots and—what is most important—are likely to find their incomes even further reduced by a downward revision in mail rates and the consequent loss of a proportionate part of tax exemption.

The tire and rubber goods industry will also suffer to some extent from the application of priorities although the damage will not be great unless Far Eastern troubles prevent the receipt of any additional supplies of crude rubber. In this industry, the greatest change is a shift of emphasis from the tire to the mechanical goods side of the business. Reduction in automobile production will naturally result in a proportionate decline in original tire equipment sales and there is now on foot a movement to restrict the future sales of replacement tires and tubes. On the other hand, defense business is calling for ever increasing amounts of mechanical goods which will continue as long as the supply of crude rubber remains adequate. A declining volume of available crude rubber will be soonest apparent in tire production and sales and since this is the more profitable operation, declines in earnings will outstrip actual reduction in the total volume of rubber goods produced. However, at the end of last June, the rubber industry had visible supplies of well over 514,000 long tons of crude rubber and shipments have been coming in at the rate of 100,000 tons monthly as compared with consumption of roughly about two-thirds of that amount. By the close of the year it is expected that the Government alone will have reserve supplies of well in excess of 500,000 long tons of rubber, and if the industry's private inventories are to be added, there will be at least one full year's supply of crude rubber on hand even if not another ton of rubber is received after the first of next year.

War rationing will, however, have a more drastic effect upon other industries. The household equipment industry is a case in point. Washers, vacuum cleaners, ironers, household food machinery, metal furniture and many similar items cannot be made satisfactorily without certain materials—notably aluminum—and where satisfactory substitutes have been found, full and continued supplies of the substitutes have been far from certain. Makers of equipment depending upon electrical heating units for their operations are in a bad way for substitutes for their present heating elements. The principal metal used in them is nickel, and that metal is no longer available for civilian needs. This means that the supply of electric irons, ironers, cooking devices, hair dryers, curlers and similar apparatus is limited and any manufacturer who depends solely upon such items for business will soon find himself in difficulties. It so happens, however, that most of the companies who manufacture such devices on a large scale also have other more profitable products which are required for national defense or which do not, as yet, interfere with defense efforts in the raw materials required. As an illustration, Chicago Flexible Shaft manufactures the "Sunbeam" line of toasters, etc., but also makes shearing equipment and heat treating furnaces used for tempering steels. The industrial items are sufficient to prevent any sharp decline in the company's business. Then, General Electric makes numerous household devices such as ironers, washers, refrigerators, small motors, and so does Westinghouse and General Motors. These companies, however, have such an abundance of other work on hand that a relief from the necessity of making the small items must be welcomed as an opportunity to devote more time and effort to the manufacture of more important products.

Radio makers will have some difficulties in supplying civilian requirements but little, if any, in getting all the work they can handle from the Government. Such communication instruments as can be made by the radio manufacturers are supplemented with a strong demand for meters for electrical installations, airplanes and naval craft which will keep the larger manufacturers occupied for the duration *(Please turn to page 599)*

Press Association Photo

Both the shortage and consequent rationing of gasoline are considered to be only temporary.

Great Northern Photo

Transcontinental Rails Enjoy Heyday

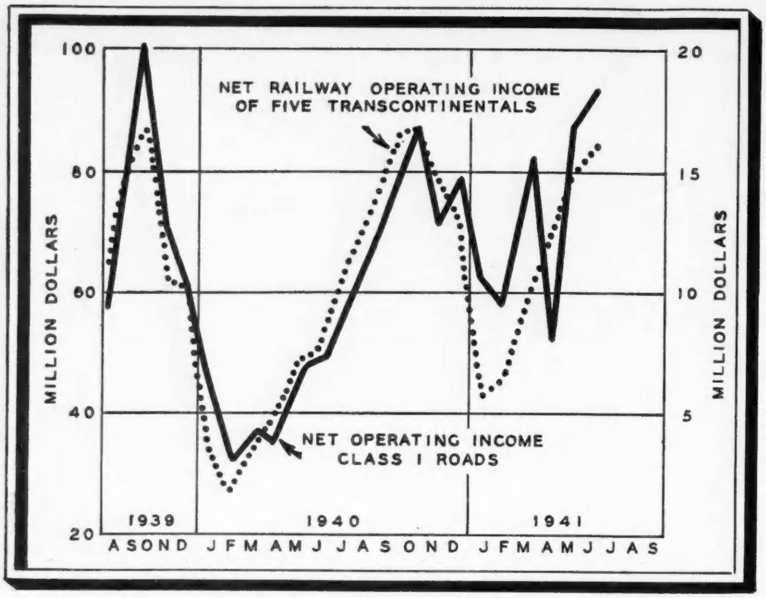
Diversion of Panama Canal Traffic and Growing Ship Shortages Promise High Earnings

BY EDWIN A. BARNES

During the time of the first World War, the railroads experienced their initial reactions to a great war economy. At that time, one of the most notable results was a sharp increase in the number of cars loaded and the manner in which these loadings were apportioned. The war taught the roads a number of important lessons in what to do and what to avoid; all of these are being utilized by the carriers in the current emergency. In certain instances, the experience of the last war is being repeated. This is particularly true of carloadings which are again following the trend of industrial production very closely. With certain reservations, it may be accepted that the heights to which industrial activities advance will determine the peak to be achieved by the rails before a reversal of trend appears.

Conditions of today are not exactly parallel to those of 1914-1917 since the former period was marked by a sharp advance in exports which practically all went to the seaboard by rail. At the same time, freight rates were higher and some operating costs—mainly labor and fuel—were sharply lower than today, even when these costs had reached their war-time peak. Then, too, during the first World War period, the railroads enjoyed a practical monopoly on all but strictly urban freight and passenger traffic while today the roads have great competition in all departments from the automobile truck and passenger cars. Still, the railroads continue to secure the better part of all available long-haul business and due to growing regulation of non-railroad competitors by the Government, together with ever-growing operating efficiency, the roads as a whole are in an excellent position to benefit considerably from the increasing volume of available freight of all classifications.

For statistical and regulatory purposes, the class 1 roads (those which gross income of $1,000,000 or more yearly) are divided into seven broad groups, according to the territories served. All of these groups are doing well but some are more favored than others by general conditions throughout the country and special situations within their own boundaries. The so-called "transcontinental" group—comprising the three Western districts—has perhaps the greatest immediate ad-



vantages and bids fair to surpass recent years' results by a substantial margin.

Among the advantages held by the transcontinental roads over their competitors are the geographical location which prevents serious motor truck competition for long hauls to the East, the gradual withdrawal of coastwise shipping to find employment in the attempt to increase aid to Britain and the phenomenal growth of many large defense industries west of the Rocky Mountains which assures those roads serving the West coast areas full loads in both directions and new record high shipments of freight.

The growing shortage of vessels for transporting private freight is one of the most important factors which seem to promise a high rate of activity and excellent profits to all of the railroads and the overland carriers in particular. Up until the outset of the present emergency, much of the freight destined to the East coast, from the Orient and the West coast manufacturers, went by intercoastal steamer. Also, a large volume of freight intended for the Far East and the Pacific states was transported by water via the Panama Canal. A wide water-rail differential in freight rates, which favored the steamships, was responsible for this condition. The rails could not profitably compete by adjusting their rates to those of the steamships and the I C C would not permit them to try.

The reallocation of steamers from the Coast runs to other services has already become apparent in Panama Canal statistics. During 1940, 26,174,000 tons of cargo moved through the canal but this was nearly 3,000,000 tons short of 1939 shipments and for the month of January, 1941, alone, shipments were almost 500,000 tons below the totals of the same month of 1940. Practically all of the difference between present and former canal shipment volume has gone to the transcontinental railroads. It is not probable that all of this Panama Canal tonnage will be diverted to the railroads, but it is logical to expect that a fair proportion will be rail-borne if for no other reason than the fact that speed of transportation is now essential and that actual carrying costs are of considerably less importance than formerly.

Assuming that the transcontinental railroads receive only about 25 per cent of the freight carried from coast to coast by steamer in normal times, such traffic would yield the roads approximately $130,000,000 yearly in additional revenues, or a sum approximately equal to 1/12th of the combined revenues of all of the Western roads for last year. Since some of the Western roads likewise serve a part of the Great Lakes area, they would be benefitted in a similar manner in the very possible event that a large part of the Great Lakes fleet of steamers be diverted to the trans-Atlantic trade.

Some of the results of the changes in conditions on the West coast are already becoming apparent in the car-loading statistics of the Western divisions. At the end of the 30-week period finished on July 26, the Northwestern division—the second largest of the Western group—loaded 3,277,601 cars of revenue freight, as compared with 2,726,157 cars in the comparable weeks of 1940 and 2,416,922 in the same weeks of 1939. The Central Western division—the largest and including much of the aviation district of California as well as the largest Pacific ports—loaded 3,323,661 cars in the most recent 30-week period, as compared with 2,932,381 cars in the first 30 weeks of 1940 and 2,896,642 cars in the comparable weeks of 1939. The third and smallest Western division—the Southwestern—reported loadings of 1,599,928 cars in 1941, 1,355,488 cars in 1940 and 1,328,268 cars in the similar period of 1939. In all cases, the greatest part of the gains were made in shipments of miscellaneous merchandise, a classification which would include most manufactured products. Significantly, the increase in less-than-carload shipments of miscellaneous freight was of only moderate proportions, thus indicating volumes of high-rated freight destined for long hauls.

In most sections of the country, any increase in the volume of industrial production is usually accompanied by a concomitant rise in motor freight shipments as well as railroad carloadings. The Western territories are an exception to the rule—especially where a large volume of Eastbound traffic is involved. Mountainous barriers and longer-than-average distances prevent the motor carriers from utilizing their admitted efficiency for short distances, and it is no longer possible for the truck operators sharply to underbid the rails in the matter of freight rates. Moreover, no truck is able to match the present high speed freight trains in their ability to transport the many very heavy items now demanded with the promptness now required in the prevailing emergency. Since the trucks customarily obtain 8 per cent or better of all freight carried, their elimination from much of the transcontinental business adds considerably to the Western roads' carloadings and revenues.

Inasmuch as a railroad's operating costs are fairly stable and, after a certain point, operating ratios decline in proportion to the increase in traffic, it is not surprising that the transcontinental roads have been showing sharply increased net incomes for the more recent months. For the first six months of 1941, class 1 roads

of the Western districts reported operating revenues of $875,876,873, or 22.8 per cent higher than in the same period of 1940 and nearly 6 per cent better than the average increase for all of the class 1 roads of the country. During the same period, operating expenses increased less than 11 per cent as compared with a general rise of better than 12 per cent for the industry. Although on the whole the much smaller Southern district made a modestly better statistical showing as far as operating income and expenses were concerned in the first six months of the year, no other group—including the immensely profitable Eastern district—was able to report 159.4 per cent increase in net railway operating income as compared with a gain of 76.6 per cent for the entire class 1 group.

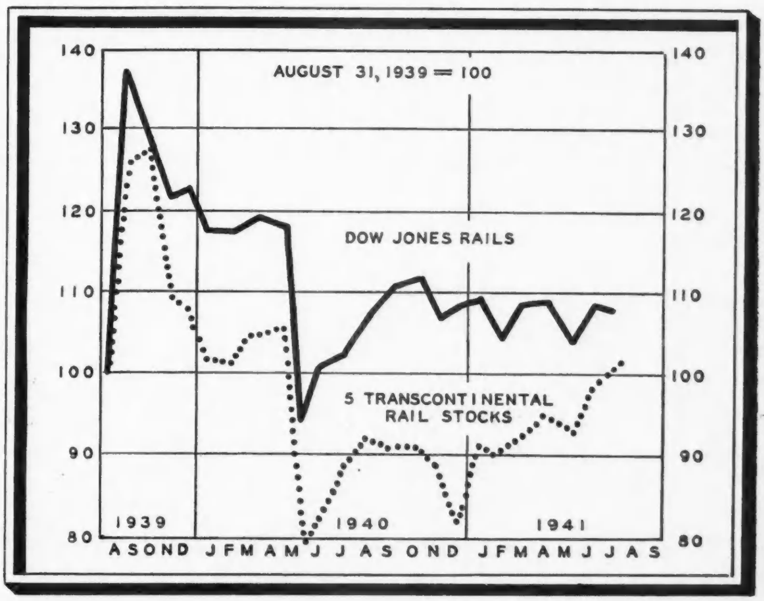
No Excess Profits Tax Problems

The sharp increase in net railway operating income of the Western roads—or for all other roads for that matter—carries no adverse implications from an excess profits tax angle, since the Western roads, despite their excellent gains, earned only 4.10 per cent on their property investment and the class 1 roads as a whole reported earnings equivalent to only 4.07 per cent on the same basis. Taken as a broad group, these figures lose some significance to the investor, but the actual extent of the Western division roads' gains in net income is graphically illustrated by examination of the reports of earnings of some of the more important roads in the group. It must be borne in mind, however, that since these roads are transcontinental carriers, their traffic originates in other sections of the country as a whole and thus the earnings reported are not strictly from the Western division. However, a sufficiently large amount of the roads' incomes do come from the territory under discussion, so that total results have some meaning in studying the prospects of the individual roads.

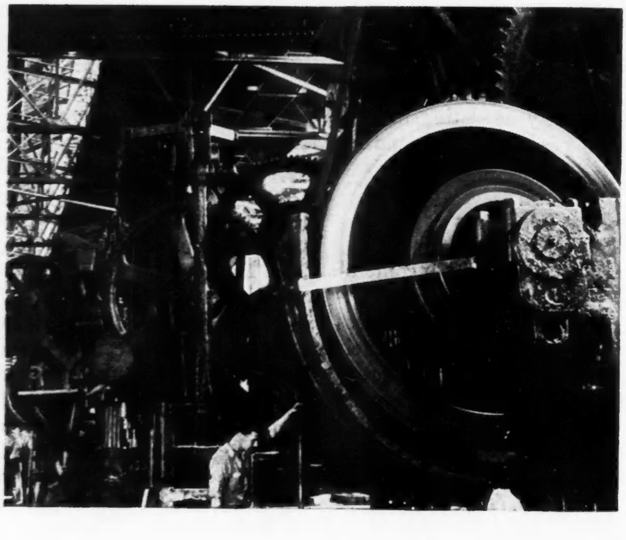
During the first six months of this year, for instance, Atchison, Topeka and Santa Fe reported net railway operating income of approximately $13,847,000, as compared with net operating income of $4,474,000 in the same months of 1940. The gain of 1941 over a year ago was 307 per cent and was the largest percentage increase of any of the roads under examination. Closely following Atchison in the percentage increase in net income, but leading the group with the actual dollars gain, was the Southern Pacific, the largest of the roads in the territory. Southern Pacific reported net operating income of $26,598,000 as compared with $9,172,000 for the first six months of 1940. The per cent increase was approximately 290 and the actual gain in dollars was close to $17,500,000. From a percentage increase standpoint, Northern Pacific made the next best showing with an increase of approximately $2,700,000 in net operating income, a gain of about 161 per cent, to a total of $7,127,000. Closely following Northern Pacific was the slightly larger Great Northern Railway which reported a gain in net income of 150 per cent above that of a year ago and a total for the first six months of 1941 of $9,953,000. Union Pacific reported an increase in net operating income of only 125 per cent above that of the same months of 1940 but Union Pacific has always had the faculty of reporting better than average earnings so that gains greatly above the average are unlikely for this road. Nevertheless, the additional net operating income of $1,573,000 was welcome and serve to bring the six months figure up to a total of $7,870,000 as compared with $6,297,000 for the same period of a year ago.

Up to this time the discussion has been pointing out only the more favorable aspects of the situation. There are some unfavorable possibilities but, in all justice, it must be said that if they come to pass, their impact will be the greatest after 1941 and their effect on this year's earnings will probably be only moderate, unless in the remote event that they become retroactive. The two major difficulties are higher wages and taxes and of the two, higher wages are the most threatening.

As is generally known, railroad workers are demanding increases in wages and concessions which amount to an increase of 30 per cent or more of the 1940 railroad wage payments. Various estimates place the increases demanded at between $500,000,000 and $900,000,000. Any increase of 30 per cent in wages or, for that matter, anything like that amount, is improbable and due to the workings of the railroad unions' agreement and the possible results of Federal intervention, no action is likely for the balance of this year. Nevertheless, the possibilities and results of a wage increase are worth considering in evaluating the prospects of any railroad. It is a fact that the roads have to some extent overcome the adverse effects of former wage increases by continued increases in operating efficiency and it is likely that the same tactics will again be pursued. But it is also probable that some wage increase will eventually be granted and for the purpose of our calculations an arbitrary figure of 25 per cent of the actual demands is taken. This would mean an increase of 7½ per cent over 1940 wage payments, a figure that will *(Please turn to page 600)*



Keeping Ahead on The Industrial Front



BY WARD GATES

Consumer Buying Stampede—

Buying stampedes by distributors and manufacturers—subsequently followed by equally violent contraction of purchases—have been fairly frequent. But a consumer buying stampede is a very rare phenomenon, and this is what is now under way. It is reminiscent of 1919 more than of early 1937 or the pre-N. R. A. weeks of 1933; and, of course, there was nothing like it in 1928 or 1929 when prices of most everything except common stocks were relatively stable. Nevertheless recently reported gains in general merchandise sales of 40 to 45 per cent over a year ago are misleading. Summer is normally a slack trade season and was so a year ago. Thus any contra-seasonal spurt results in an exaggerated percentage gain from a low base of comparison. For the month of July the Reserve Board's seasonally adjusted index of department store sales showed a year-to-year gain of just under 20 per cent; and its August increase will prove to have been around 23 to 25 per cent. From September on dollar volume comparisons will be with a relatively active period of 1940, tending to scale down percentage gains. The rush for consumers' durable goods is already being moderated by rapidly developing scarcities in some lines, for instance metal furniture. Here demand is one thing, sales something else—with fourth quarter sales trend down and scarcity trend up. Against this the shift of low-bracket purchasing power to still available soft goods is yet in an early phase. For the aggregate of such goods the writer estimates a fourth quarter dollar volume approximately 20 per cent larger than a year ago. Yet the merchandising enterprise able to translate this into any significant gain in 1941 net profits—after allowing for the year's radical increase in taxes—will be decidedly the exception which only proves the rule.

Residential Building Outlook Drab—

Belated action has been taken to assure priorities for housing in defense areas but this so far applies only to publicly financed projects estimated to total perhaps 100,000 dwelling units or a relatively small ratio of present annual residential building. Whether private builders will later get preferential treatment where defense needs can be proved remains to be seen. But there is no question that non-defense housing will soon hit the skids. Present volume is still good but much of it represents the momentum of projects started earlier for completion before the good September-October selling season. Many speculative builders already find themselves weeks behind schedule, will try to finish only houses for which foundations have already been dug.

Squeezing Installment Credit—

The curb just imposed on installment credit terms by the Federal Reserve Board is too mild to have any important effect upon consumer demand or to have more than relatively insignificant relation to the problem of "controlling inflation." The limit of 18 months on pay-

ments on automobiles is only moderately less than the previous average, less than half of time sales having been for a longer period than this and a relatively small percentage having been for more than 24 months. The one-third down payment now stipulated was standard with the larger finance companies, although about 40 per cent of total time sales were made on smaller initial payments, usually one-fourth. All of this is pretty much aside, however, from the reality confronting makers of types of consumers' durable goods sold in large degree "on time." Regardless of credit terms, demand will exceed supply and reduction of output will be forced by shortages of key materials. This will affect volume and earnings of manufacturers, distributors and finance companies far more than will the installment credit curbs.

Earnings Versus Dividends—

Your dividends through the war period will tend to relate somewhat less to earnings per share and somewhat more to management's judgment as to what proportion of earnings it will be prudent to distribute. The general tendency, as in the last war, will be to distribute a more conservative percentage of earnings than in time of peace. For one thing, it is reasoned that large war earnings are of doubtful continuity; and hence conservative managements strive to build up cash reserves against the possible future "rainy day." But also important is the fact that need for cash working capital is radically increased under present conditions. This is chiefly because radically higher volume of business involves an increase in inventories and accounts receivable which tends to keep a couple of jumps ahead of the increase in cash receipts. Even though the cash working capital position of the average successful corporation during recent pre-war years was probably stronger than ever before, nevertheless commercial borrowing from the banks had to be increased 38 per cent over the past year. In the case of small business, quite aside from the problem of materials, an inflationary period inevitably brings a considerable increase in commercial failures, due to the squeeze in working capital. As compared with World War days, however, larger corporations are far stronger financially and even the average war baby enterprise can be expected to distribute a more liberal percentage of earnings than was the case in that period when many disbursed only a quarter to a third of profits in dividends; but it will generally be a smaller ratio than in such years as 1936, 1937, 1939. In any event you will be well advised to scrutinize balance sheets from here on more intently than you have been doing.

Measuring Production—

To investors the Federal Reserve Board index of production is even more the standard measuring rod for business than the Dow-Jones averages are for the stock market. But indexes—and averages—are tricky things, sometimes concealing more than they reveal. With many industries straining capacity, you probably were surprised to see the Reserve Board index spurt to 162 for July, against 157 for June. But this was due to adjusting the figure in accord with "seasonal normalcy." In the kind of economy we have today, "seasonal normal" is not what it used to be, to say the least. Actual production in July increased just 2 points to 159 from 157—the figures being percentages of the 1935-1939 average. Later this year, when seasonal rise would normally be called for, the adjusted index will flatten out or actually decline because production, although at new high records, will probably gain "less than seasonally" due to capacity limitations. To show how it works, the adjusted index—which is the one you watch in the newspapers—was unchanged in April from the January figure, while "unadjusted" production in the interim had advanced from 134 to 142.

The Boom in Aircraft—

The production of aircraft may be "behind schedule" or "disappointing" but only because schedule and hopes are so high. Actual achievement to date has been nothing less than miraculous. Here is the production picture on an index basis: Start of 1939, 100; start of 1940, 240; start of 1941, 620; June, 1941, 870. Actual output for the first half of this year was 7,423 planes, roughly half combat ships. Indicated output for the year is around 20,000 planes or about three times the volume of 1940 and a lot of ships in anybody's skies. Although profit margins are not great on this Government business, the large increase in volume will go a long way toward offsetting the higher taxes now in process of legislation and for some companies will more than do so. Still higher taxes may be written in 1942, but against this you can figure on a further volume (*Please turn to page 598*)

Trends and Projections

The biggest consumer buying stampede since 1919 is now on, but from here out purchasing power will increasingly shift to general merchandise items. Some metal goods are already exhausted, all will grow progressively "tight."

Installment credit curbs now enforced by the Government are so mild that they will have no major effect upon demand for goods sold on time. Neither do they amount to much as an "inflation control."

Non-defense residential construction is now near the end of the big build-up which precedes the big let-down. With supply difficulties increasing, many operative builders are already weeks behind schedule on uncompleted projects.

Investors will have to begin watching corporate finances more closely. A war inflation period always brings credit deterioration in more or less degree: swollen inventories and receivables, more bank loans, less cash.

Aircraft tops the list of leading industries assured of large volume gains in the next year. Accordingly, earnings will be maintained at high—and, in some cases rising—levels, despite tax boosts.

Sound investment policy is more difficult to formulate than ever before but is not an insuperable problem if approached with common sense.

Readjust Your Securities For Protection, Income, Profit

BY J. S. WILLIAMS

It's too bad securities don't get rusty! If the investor could see physical evidence of deterioration in quality he would be quicker to act. But his stock and bond certificates look as bright as ever. He is aware that important changes are confronting companies in which his capital is invested—yet how recently has this average investor studied in detail the new factors? Has he endeavored to calculate the effects of higher taxes, price controls and priorities on the enterprises whose securities he owns?

Investors are likely to rationalize their reluctance to change the status quo of their portfolios by taking the attitude that anything they do in the face of the multitudinous uncertainties stemming from the war will probably be wrong. It is true that the war has been responsible for creating many new factors and conditions which no one could possibly have foreseen two years ago. Nor is it possible to foresee the likely course of events over the next year or two. In itself, however, this is not a valid reason for simply standing pat.

For some months these columns have stressed the fact that no investment is static. This is true particularly in the case of common stocks. By the same token it is dangerous to permit a portfolio of investment securities to become static. The one thing that is certain in the future is that many sweeping changes will be wrought—changes which will profoundly affect our national economy. The pattern of some of these changes has been roughed out, while others are probably unthought of at the present time.

For one thing it is certain that the Government will play an increasingly important role in national planning. It will be a long time before any reduction in corporate and personal income taxes will be possible. Our national defense program may give birth to a permanent war industry. New industrial technologies and products will be evolved. No industry or company will escape these changes; some will go on to new heights, others will find the going pretty tough.

It is not implied here that investors now can anticipate the scope of these changes with any considerable measure of accuracy. What they can do is to avoid fighting against them. There may be ample grounds for disapproving many of these changes, but failure to accept the inevitable might seriously jeopardize the security of an investment program. What has happened to the junior securities of public utility holding companies since 1935 may be cited as a potent example of the investment losses which may be suffered by failure to act. Holders of securities in vulnerable utility holding companies had ample time to divest themselves of such issues at prices substantially above those existing at the present time. An investment portfolio is not the proper place

Selected Preferred and Common Stocks for Income

These are the type of issues which might be advantageously included in portfolios where a limited income must meet higher living costs.

Issue	Recent Price	Dividend	Yield
Butler Bros. Pfd	23	1.50	6.52
Chicago Pneumatic Tool Conv. Pfd	42	3.00	7.14
Consolideted Ciger Prior Pfd	94	6.50	6.91
Crucible Steel Pfd	88	5.00	5.68
Firestone Tire & Rubber Pfd	103	6.00	5.83
Loew's, Inc. Pfd	108	6.50	6.02
Bendix Aviation	38	3.00(a)	7.89
Freeport Sulphur	39	2.00(*)	5.13
General Telephone	22	1.60	7.27
Green, H. L.	35	2.00(b)	5.71
Kress, S. H.	28	1.60	5.71
Lone Star Cement	44	3.00(*)	6.82
May Department Stores	53	3.00	5.66
Phillips Petroleum	44	2.00(*)	4.55
United Fruit	71	4.00	5.63

(a)—Paid or declared this year. (b)—Plus extras. (*)—May pay an extra.

for the individual to manifest his politics, convictions and preconceptions, unless they are adequately supported by tangible facts and conditions. Compromise in the interests of investment flexibility is a prime requisite in safeguarding investment capital today.

With this in mind, it behooves every investor to examine his securities carefully in the light of the *known* conditions as they exist at the present time. The pattern evolved by two years of war has already been reflected in a changed staus of many companies. In the case of not a few, substantial benefits have accrued. For some the defense boom has been anything but a blessing. Despite higher costs and taxes a surprising number of companies this year promise to record the best earnings in their history; others have been unable to expand their volume sufficiently to absorb higher costs and taxes and earnings have declined, accompanied by an increasingly narrow margin of safety for dividends. Dividend casualties will most certainly become increasingly numerous over the next few months. Priorities, rationing, price ceilings and other restrictions will likewise take their toll of earnings to an increasing extent. The nature of the activities engaged in by many companies is such that they are outside the scope of the defense program, and are likely to remain so for the duration of the emergency. At best their stake in defense business is an indirect one, with the result that earnings and investment values in this group are particularly vulnerable.

Selected Common Stocks for a Stake in Defense and Future Growth

These are issues of companies prominent in the defense effort but which also have promising peace-time future.

Issue	Earned Per Share 1st 6 mos. 1941	Earned Per Share 1st 6 mos. 1940	Recent Price	Dividends*
American Cyanamid "B"	0.93	0.85	40	0.45
Bendix Aviation	3.17	2.05	37	3.00
Black & Decker	2.18	0.99	22	0.90
Climax Molybdenum	1.57	1.37	40	0.60
Dresser Mfg.	1.12	1.59	20	1.00
Caterpillar Tractor	2.28	1.86	47	1.50
Eastman Kodak	4.15	3.63	140	4.50
Fairbanks, Morse	2.30	1.58	39	1.50
General Electric	0.90	0.90	32	0.70
General Motors	2.62	2.52	39	2.75
International Harvester	NV	NV	53	1.20
Link Belt	1.76	1.26	33	1.00
Niles-Bement-Pond	NV	NV	50	1.75
Sperry Corp	2.03	1.52	36	1.00
Texas Gulf Sulphur	1.24	1.17	39	1.50
Union Carbide & Carbon	2.30	2.15	78	2.25
United Aircraft	2.11	2.34	41	2.00

*—Paid or declared this year. NV—Not available.

Those companies which appear to have the least to gain from defense business and which may be harmed the most are for the most part among the manufacturers and distributors of consumer goods. To be included are manufacturers of cigarettes and snuff, chewing gum, candy, soft drinks, proprietary drug products, soaps, nationally-advertised food and dairy products and similar products the demand for which expands moderately rather than fluctuating with the general level of business. Some portion of substantially increased public purchasing power will undoubtedly spill over into these consumer products, but it is extremely questionable whether it will result in producing a sufficient increase in sales to protect profit margins against the claims of higher taxes and other costs. Competition in these fields, moreover, is exceptionally keen and many products are sold at prices which the public has come to regard as being more or less standard. Considerable difficulty, and the risk of possible competitive losses, are likely to result from attempts to advance prices. Faced with higher living costs, the consumer will not hesitate to defend himself against higher prices wherever possible. He will doubtless be willing to accept a lesser known brand at a lower price in preference to the nationally advertised one. The consequences will be a squeeze play on profits.

It should also be borne in mind that while many consumer goods companies are already vulnerable from the standpoint of the tax collector, they may become relatively even more so. Should the average earnings base of computing excess profits taxes be ultimately eliminated entirely in favor of earnings based on capitalization (advocated by the Treasury Department) some of the companies in the groups mentioned above would be hit hard. Many of them have a comparatively small investment in plant and equipment and a modest stock capitalization; their principal business asset being brand names and good will built up largely through outlays for advertising and other merchandising efforts. For some years now, as a conservative accounting practice, it has been the policy to carry good will, etc., at the nominal figure of $1. Unless these companies were permitted to write up these items, taxes based on capitalization might prove very onerous.

As in the case of most generalities, there are of course exceptions to the comparatively drab earnings outlook for consumer goods companies. Competitive stamina, consumer preferences, managerial skill and other factors may be present which will enable some of the companies in this group to turn in a satisfactory earnings performance. For example, thus far General Foods has been able to enlarge its sales volume sufficiently to maintain profits at a comparatively good level, while the company's rival, Standard Brands, has not. Phillip Morris has been making outstanding competitive gains, apparently at the expense of other leading cigarette manufacturers. There are, and probably there will continue to be, others. The point is that no investor is urged to eliminate from his list the shares of all companies identified with consumer goods industries. Rather it is to be emphasized that this group is particularly "on the spot" and the shares of representative companies should be carefully appraised and judged strictly on their own merits.

Particularly should careful note be taken of relative dividend security. Many common stocks of consumer goods companies have to their credit a long and unbroken record of dividend payments, and many investors have

included these issues in their portfolios on the basis of their dependability from an income standpoint. In the past some of these companies have found it possible to pay dividends in excess of earnings because a strong financial position has permitted such a policy. In the present setting, however, a strong financial position cannot be accepted as unqualified security for dividends should earnings decline below the indicated dividend rate. With costs, taxes, and the price of raw materials rising, working capital requirements will be much greater than normal, necessitating a more conservative policy toward dividends than might otherwise be the case.

Two groups of companies providing consumer goods and services which are likely to be substantial, albeit indirect, beneficiaries of the defense program are retail trade organizations and motion picture producers. Increased employment and rising purchasing power are already evident in the volume of retail sales and attendance at motion picture theaters, with the gains being particularly pronounced in the industrial areas busy on defense orders. Department stores, dry goods chains, clothing and shoe chains and some of the variety chains will do the largest volume of business in their history this year. Grocery chains also may do somewhat better but here the possibilities for increased sales are more limited. Greatly increased farm purchasing will revert to the advantage of mail order retailers, notably Sears, Roebuck and Montgomery Ward. Both of these companies have in the past sold large quantities of consumer durable goods such as furniture, refrigerators, washing machines, heating equipment and the like and installment sales have accounted for a fairly sizable proportion of total volume. Supplies of consumer durable goods will be limited on the one hand by diversion of materials to the defense program, while on the other, restrictions on installment terms may also cut down the volume of sales of such goods. Both Sears, Roebuck and Montgomery Ward will in all probability share substantially in the growing volume of purchasing power, but a company like J. C. Penney specializing in dry goods and other types of "soft" goods will not be subjected to the restricting influences mentioned, and to that extent occupies a more favored position.

It is a worthwhile investment axiom at any time that no considerable advantage will be sacrificed by avoiding all borderline situations—that is to say where the adverse and favorable factors are about evenly balanced. Such situations frequently attract investors on the reasoning that the worst has been largely discounted in the price of the stocks, while a definite turn for the better would warrant higher prices. There is no gainsaying that this line of reasoning might well turn out profitably, but it is the sort of undertaking which is best left to the more sophisticated investor or trader. Typical borderline situations at the present time are to be found in F. W. Woolworth, Commercial Investment Trust, Commercial Credit, and International Nickel and others.

In considering the type of common stocks which are likely to prove the most productive investments in a defense economy, so many factors enter into the choice of such issues that it is impossible to classify them into any particular group, such as steel, aircraft, shipbuilding, etc. Some steel stocks have more to recommend them to the average investor than others, and the same holds true of the other industrial groups that are closely identified with the defense program. One point which might be well to bear in mind in connection with the appraisal of the shares of heavy goods companies and others which have large defense orders on their books, is the possibility that the current year will witness peak earning for the war-time period. Many companies are already operating at virtual capacity; new capacity may not be available for some months; in the meantime another increase in taxes may be enacted. The conclusion drawn may well prove to be a valid one, notwithstanding the fact that only a fraction of the money which will be made available for defense has as yet been disbursed under actual contracts and deliveries.

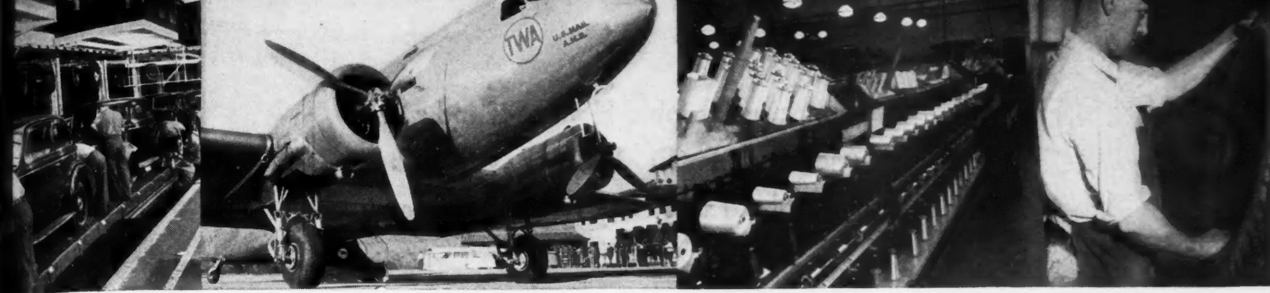
Here again exceptions to this generality will doubtless appear. There will still be a considerable number of companies which will be able to turn in quite impressive earnings reports, particularly when comparison is made with recent lean years. In arriving at a suitable selection of defense issues, it would be well to avoid the shares of companies substantially dependent upon this class of business and whose record under more normal conditions has been unimpressive. A representative investment stake in the defense program can be readily obtained by confining the choice of issues to companies normally outside the "war baby" category. Examples of such companies would (*Please turn to page 596*)

Typical Common Stocks Facing Restricted Earnings Prospects

At the present time the outlook for these companies must be rated as doubtful as a result of such factors as costs, taxes, regulation and other restrictions.

Issue	Recent Price	1941 Price Range High Low	Dividend
American Home Products	48	51 -44¼	2.40
American Tobacco "B"	70	73½-62	5.00
Beneficial Industrial Loan	15	20⅞-13¾	0.85(a)
Campbell Wyant	12	14⅞-10¼	0.85(a)
Canada Dry Ginger Ale	15	15⅝-10⅞	0.60
Coca-Cola	93	106 -87	2.25(a)
Cream of Wheat	18	19 -14⅞	1.60
Doehler Die Casting	18	23⅛-17	0.50
Electric Auto-Lite	28	33⅞-25⅛	3.00
General Baking	6	7¼- 5⅝	0.30(a)
Inspiration Copper	12	13½- 9⅛	0.75(a)
Jarvis, W. B.	10	14 - 9¾	0.75(a)
Kelsey-Hayes Wheel	7	8½- 5½	....
Lorillard	17	19⅜-15⅛	1.20
Libby-Owens-Ford	28	45⅜-26½	1.50(a)
National Distillers	23	24¼-17	2.00
Procter & Gamble	59	60¼-50⅛	2.50(a)
Purity Bakeries	11	12⅜- 9⅞	0.75(a)
Reynolds Tobacco "B"	32	34¼-28⅛	2.00
Thatcher Mfg.	8	10⅛- 5½	....
Woolworth	29	34½-26⅛	1.60

(a)—Paid or declared this year.



1941 SPECIAL Mid-Year Security Appraisals and Forecasts

Part III

Industrial Volume and Profit Trends, with Outlook for Individual Aviation and Automobile Issues; Tires and Accessories; Chemicals, Movies, Merchandising

In time of peace the single most difficult question confronting the average investor in common stocks is the prospective trend of general business activity, in which fluctuation of industrial production is the most dynamic factor. Individual security selection, while always extremely important, is nevertheless the secondary problem.

But in the controlled war economy toward which we are rapidly moving the investor's problem is almost exactly reversed. There is no question of the level or trend of industrial production and aggregate business activity. Both will be as high as is permitted by limits of producing capacity, materials, labor, power and transport. This is to say that in any event total industrial volume will continue to set new records. Yet only a small minority of companies will earn record high profits and in not a few instances earnings and dividends will be lower than for the average of the pre-war years 1935-1939.

The letters A, B, C, D, E indicate our judgment of the basic investment-market quality of each security, based on its status in our war economy, earnings-dividend potentials, vulnerability to rising taxes, finances, management, trade position, growth prospect, operating flexibility, etc. The numerals 1, 2 and 3 indicate current earnings trend.

INVESTMENT—MARKET QUALITY	CURRENT EARNINGS TRENDS
A—High Grade	1—Upward
B—Good	
C—Medium Grade	2—Steady
D—Marginal	
E—Low Grade	3—Downward

Stockholders today have to reckon with coming enforced curtailment of some industries which impinge on the defense program, as well as with rising taxation, priorities, shortages of materials, prospective price-control legislation, etc. In this maze the formulation of sound, commonsense judgment is difficult but by no means impossible. It is to aid in that objective that our Mid-Year Security Appraisals and Forecasts, on following pages, are dedicated.

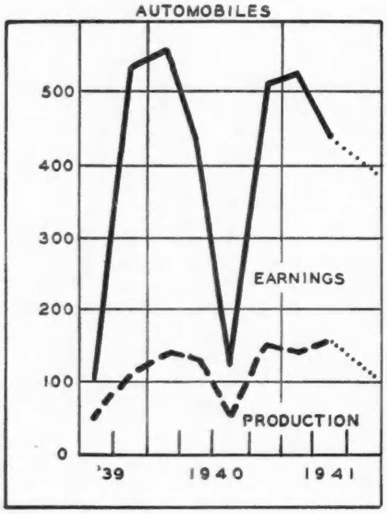
Use of our investment-market rating, in the tabulation on each issue, is explained in the adjoining box on this page. Selected issues which we recommend for safe income are denoted by a star symbol. Issues recommended for cyclical appreciation are marked with an asterisk. Issues favored for both income and appreciation are marked with a dagger. Timing of any purchases for appreciation should accord with the general trend advice given in our regular market analysis in the forepart of each issue.

Presenting a Graphic Picture of Industrial Volume and Profit Trends as Defense Increasingly Takes Over Our Economy

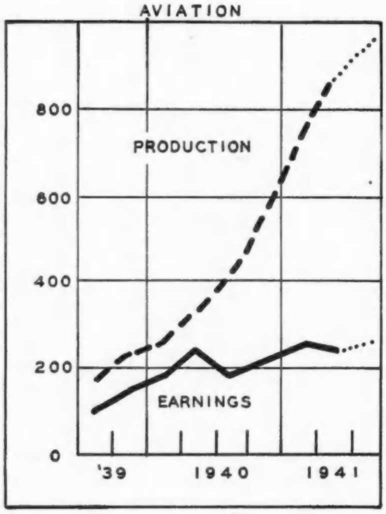
War Atlas of Industry

In this group of charts the earnings lines are on an index base with the third quarter of 1939 equal to 100. The production indexes are sub-divisions of the Federal Reserve Production index with 1935-39 equal to 100. The dotted lines indicate projections.

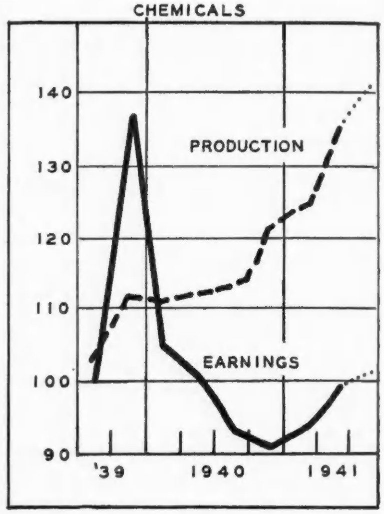
AUTOMOBILES



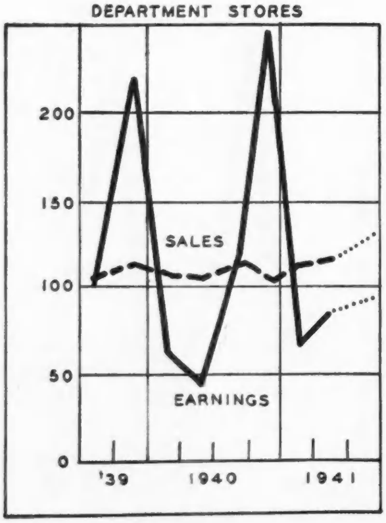
AVIATION



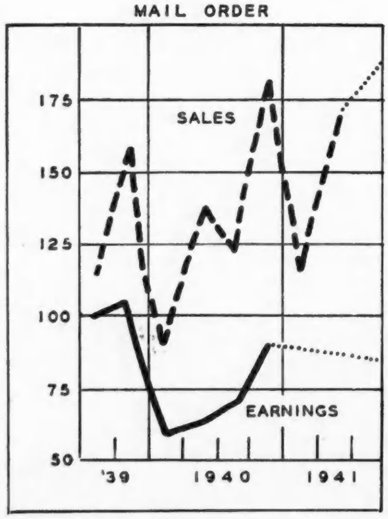
CHEMICALS



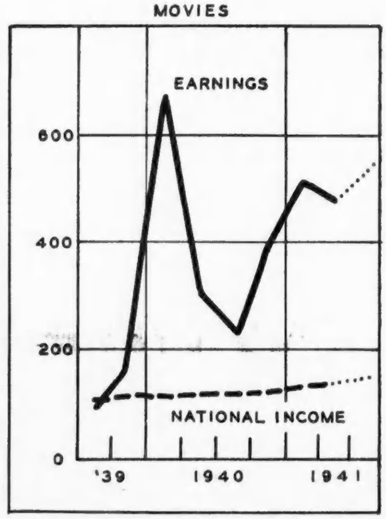
DEPARTMENT STORES



MAIL ORDER



MOVIES



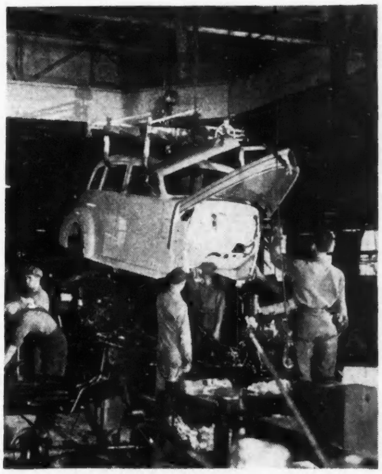
Motor Industry's Arms Business Soars

Large Defense Contracts Will Prove Offset to Auto Cuts in Many Instances

BECAUSE of its tremendous potential usefulness in producing articles of defense, the automotive industry quite naturally is heading for large scale disruption of its regular business. In fact, passenger car companies recently were informed in a joint O.P.M.-O.P.A.C.S. order that output must be cut 26½ per cent during the months August through November and progressively more in subsequent months, with the objective of a 50 per cent curtailment for the model year ending July 31, 1942.

Such a program would mean that about 2,150,000 passenger cars would be produced in the 1941-42 model year, compared with 4,297,000 in the model year recently closed. With an aggregate of 817,000 scheduled for production during the first four months of the current model year, little more than 1,333,000 cars would be turned out in the last eight months, a heavy letdown from the 3,184,000 output of the comparable preceding season. The various allocations would bring a drop in General Motors' percentage of the total produced to 44.3 per cent in the four months to end November 30, which would compare with 48.5 per cent in the complete 1941 model year. Chrysler would come down from 23.1 per cent to 22.7 per cent, while Ford would come up slightly from 18.1 per cent to 18.5 per cent. The independents benefit to the extent of doing 13.9 per cent of total production, vs. 9.7 per cent in the entire 1941 model year.

The scheduled cuts run from a high of 38.2 per cent for Hudson to 7.1 per cent for Willys-Overland, while Nash-Kelvinator will be allowed to produce 4.9 per cent more and Crosley 80 per cent more. Actual car production would be 361,815 units for General Motors in the four months to end Nov. 30, 1941, compared with 511,700 actual production in the four months ended Nov. 30, 1940; for Chrysler in the same period 188,849, vs. 275,600; for Ford 151,845, vs. 182,800; Studebaker 35,289, vs. 46,160; Hudson 25,874, vs. 41,900; Nash 21,972, vs. 20,942; Packard 23,056, vs. 25,710; Willys-Overland 7,768, vs. 8,364; Crosley 333, vs. 185.



As a matter of fact, the projected output of 2,160,000 passenger cars for the 1942 model year would be under replacement needs, as indicated in the ten-year average of 2,339,000 cars scrapped annually, or about 80 per cent of new car sales. Last year the junking reached 2,600,000 cars, or 440,000 more than would be produced in the present model year under the new allocations.

Sharply contrasting with the passenger car situation is that in trucks, with production scheduled at 150% more for heavy truck assemblies, not only to fill actual Army demand, but that of truck transport companies and actual armament industries. Light trucks are not covered in the order, though it is indicated that the industry will be able to produce all the light trucks, under 1½ tons, for which it is possible to get materials, after needs for the heavier, defense, types, are filled. Mack Trucks, General Motors, White, Diamond T Motor, Federal and Fruehauf Trailer are some of the beneficiaries of the truck arrangements.

In the instance of the passenger car industry, rising armament business will prove a strongly counterbalancing influence to production cuts. The automotive industry already has $2,500,000,000 in defense orders on its books, ranging from bullets to aircraft and including the all-important tank. Within ten months the industry will have at least $5,000,000,000 in unfilled orders—equivalent to about a full year's normal automotive output. It is likely that as much as $500,000,000 of armament material already has been delivered to the Government, with the rate of deliveries scheduled to be increased sharply as the make-ready process, which included a great deal of changeover, nears completion.

Current orders on the books may be broken down roughly into these categories: airplane engines $1,199,500,000; airplane accessories and subassemblies $550,000,000; trucks $400,000,000; complete airplanes $240,000,000; guns and shells $200,000,000; marine engines $175,000,000 and tanks $90,500,000. Of these orders, about 75 per cent is held by the leading automotive manufacturers—with General Motors leading with a $1,000,000,000 aggregate. Ford is next, with about $700,000,000 and Chrysler third, with about $300,000,000.

Nevertheless, there is virtually no company among the great total of automotive and auto accessory companies which does not have some defense business, although this varies in considerable degree. Comment in the adjoining tables indicates the relative status of each company in this respect, or specifically as to the earnings and dividend outlook.

Metamorphosis of the automotive industry into armaments may be illustrated lucidly by the bomber manufacturing procedure. Using the Consolidated B-24 bomber (four-motored), for example, this will consist of engines by Buick, frames by Ford, propellers by Nash and gun turrets by Superior Tool & Die. Buick, Chevrolet, Allison, Packard and Ford are heading rapidly toward a monthly capacity of 1,000 engines each, and Studebaker and Continental for 600 monthly each, though only recently the automotive industry was turning out about 1,000 engines monthly.

With armament business coming in fast and many automotive and accessory securities having gone through a rather prolonged period of liquidation, considerable question exists as to whether or not this group has passed its peak period of liquidation for the time being. Our view is that it quite possibly has passed this period and that (considering in part the point that ultimate rebound in the automotive industry proper is inevitable) the majority of stocks in this field should be retained at this point.

Looking into technical action of several outstanding issues in the automotive and accessory industries, we find that General Motors, for example, is slowly edging away from the 36-37 range, which (viewing it from the longer range standpoint) is a vital stopping area, having been approximately reached in 1940 and 1939. Generally, then, we have the encouraging picture in General Motors of a stock which is now drawing upward from the rough triple-bottom point of the past 30 months. The situation in Chrysler is almost exactly the same, chartwise, as in General Motors; in other words, the stock shows a tendency to draw away from a triple bottom for the past 30 months, these low prices having been established, respectively in 1939, 1940, and within the past few weeks. Both General Motors and Chrysler, on chart action and earnings prospects, appear well worth retaining at present.

In the case of Studebaker, the technical picture is relatively less favorable, the stock having definitely broken through the 1939 and 1940 low points, with rebound action unimpressive. It may be noted that,

(Please turn to page 596)

Position of Leading Automobile Stocks

Company	EARNED PER SHARE 1935-39 Average	1940	Latest Interim 1940	Latest Interim 1941	Estimated 1941 Earnings	Divs. Paid to Date	Invest. & Market Rating	COMMENT
Chrysler Corp.	$9.36	$8.69	$3.62(3)	$2.20(3)	$6.00-$8.00	$3.00	B-3	Excess profits and other taxes, as well as growing encroachment of defense program, bring reduced net, but dividend reduction is not likely over the intermediate term.
Ford of Canada "A"	1.85	1.55	NF	NF	NE	0.50	C-3	Though company is operating at a high rate, Canadian exchange and tax restrictions, as well as difficulty in obtaining raw materials indicate small earnings decline and dividend uncertainties.
Ford, Ltd.	(a)5.03%	NF	NF	NF	NE	....	D-3	War economy unfavorably affects the company's operations, bringing a decrease in earnings and obscuring the dividend outlook.
General Motors	3.93	4.32	2.52(6)	2.62(6)	3.75-4.75	2.75	A-2	One of America's greatest business enterprises, diversified General Motors is likely to feel coming auto curtailment less than the average automotive company. Relative stability of earnings and dividends indicated.
Graham-Paige	d0.56	d0.43	def.(6)	def.(6)	NE	....	E-3	Though somewhat rejuvenated in current high-pitched economy, the company's present finances and the outlook for dividends remain unimpressive.
Hudson Motor	d0.17	d0.95	def.(6)	0.15(6)	NE	....	D-1	Substantial order for Wright airplane engine parts, as well as other defense work, improve prospects and may permit consideration of a minor dividend.
Hupp Motor	d1.17	NF	NF	NF	NE	....	E-3	No additional news has been published recently on potential reorganization.
†Mack Trucks	0.70	3.02	1.36(6)	2.52(6)	4.00-5.00	1.00	C-1	Both normal activities of the company and defense orders are at an all-time high; reflecting higher earnings and favorable prospects, dividends are likely to be increased.
Nash-Kelvinator	Sd0.11	0.35	0.30(9)	0.87(9)	1.00-1.25	0.125	C-1	Pickup in demand for regular lines and large armament orders bring earnings betterment. Small dividend payment likely this year.
Packard	0.16	0.05	def.(6)	0.08(6)	0.15-0.25	....	C-1	Huge defense orders, including $165,000,000 for marine and airplane engines, promise further earnings rise, but large working capital needs may not permit early dividends.
Reo Motor	d0.59	d0.72	def.(6)	0.08(6)	NE	....	D-1	Though earnings prospects have improved, the company's restricted finances do not indicate that dividends will soon be paid.
Studebaker	0.19	0.96	0.43(6)	0.59(6)	1.00-1.25	....	C-1	Curtailment of regular automotive output likely to be counterbalanced by aircraft engine business; with prior bond interest large, initial dividends are not imminent.
*White Motor	d1.24	3.12	1.19(6)	1.26(6)	2.50-3.50	0.50	C-1	Large orders for military vehicles bolster earnings outlook; additional dividends this year are likely. Stock currently is selling under its net quick assets per share.
Willys Overland	Sd0.61	d0.50	def.(9)	def.(9)	NE	....	D-2	Substantial backlog of defense orders will enable earnings improvement, as well as consideration of payments toward preferred stock arrearages.
†Yellow Truck "B"	0.51	1.60	0.74(6)	1.13(6)	2.00-2.50	0.50	C-1	This company is a major beneficiary of the current war economy, while business in regular lines is well maintained. Higher earnings will warrant slightly larger common dividend payments.

†—Recommended for income and potential appreciation. *—Recommended for cyclical appreciation. S—Year ends September. d—Deficit. NF—Not available. NE—No estimate. (a)—% earned on par value of £1 per share.

Position of Leading Auto Accessory and Tire Stocks

Company	1935-39 Average	EARNED PER SHARE 1940	Latest Interim 1940	Latest Interim 1941	Estimated 1941 Earnings	Divs. Paid to Date	Invest. & Market Rating	COMMENT
American Bosch	d$0.40	$0.89	$0.56(6)	$0.55(6)	$0.75-$1.00	....	D-2	Working capital needs stand in the way of immediate dividends, but later payment is likely.
†Bendix Aviation	S1.25	3.09	2.70(9)	4.52(9)	6.00-7.00	$3.00	B-1	Company is one of the leading beneficiaries of armament; though taxes will be heavy, larger earns. and divs. anticipated.
†Bohn Aluminum	3.34	4.09	1.68(6)	2.32(6)	4.50-5.50	1.00	C-1	Major part of company's business now concentrated in defense lines; favorable earnings prospects should bring increased dividends.
Borg-Warner	2.51	2.88	NF	NF	3.00-4.00	0.80	B-1	Defense orders bolster sales volume and enable small dividend increases.
†Bower Roller Bearing	3.03	3.73	1.00(3)	1.15(3)	4.00-5.00	2.25	C-1	Though automotive business likely to decline, armament business is rising; continued liberal dividends indicated.
Briggs Mfg	3.24	3.10	1.21(3)	0.92(3)	3.00-4.00	1.00	C-2	Aircraft parts production rising sharply and will serve to offset coming drop in auto lines; dividend stability expected.
Briggs & Stratton	3.30	3.50	2.25(6)	2.19(6)	3.00-3.50	1.50	C-3	Temporary earnings letdown possible as auto industry needs fewer locks; little change in dividends likely.
Budd Mfg	d0.03	0.75	0.49(6)	1.05(6)	1.50-2.00	....	D-1	Good earnings outlook may bring recapitalization plan to clear preferred arrears.
Budd Wheel	0.45	1.01	0.39(6)	0.94(6)	1.50-2.00	0.45	D-1	Armament and railroad equipment lines boom; slightly larger dividends anticipated.
Campbell, Wyant	1.63	1.71	1.07(6)	1.17(6)	2.00-2.50	0.85	C-1	Though profit margin is shrinking, prospective earnings should permit larger dividend payments than in 1940.
Clark Equipment	2.23	5.91	3.60(6)	3.85(6)	5.50-6.50	1.50	C-2	Both commercial and armament demand running high; moderately increased dividends likely.
Cleveland Graphite	3.73	4.10	2.50(6)	2.50(6)	4.00-4.50	0.80	C-2	Aircraft accessory and other armament lines will help offset auto decline; only minor dividend changes expected.
Collins & Aikman	F4.93	5.15	1.22(3)	1.33(3)	4.00-5.00	2.75	C-3	Decrease in auto fabric and possibly furniture fabric sales possible; dividends may undergo small cut.
Eaton Mfg. Co	2.92	4.26	2.71(6)	2.81(6)	4.00-4.50	2.25	C-2	Taxes restrict earnings gains over 1940; dividends at the 1940 rate likely to continue.
Electric Auto-Lite	3.08	5.01	2.29(6)	3.23(6)	5.00-6.00	1.50	C-1	Later automotive curtailment will hurt, but dividends likely to continue for time being at $3 rate.
Electric Storage Battery	2.12	2.39	0.85(6)	1.83(6)	2.75-3.75	1.50	C-1	Favorable financial condition should permit liberal dividends, even with some reduction in automotive demand.
Firestone Tire & Rubber	O2.29	3.02	0.60(6)	1.75(6)	3.00-4.00	0.75	C-2	Near term earnings prospects indicate larger dividends, but later expansion likely to be curtailed by civilian restrictions.
General Tire & Rubber	N1.77	0.85	0.39(6)	1.77(6)	2.75-3.50	0.50	C-2	Anticipated decline in normal tire demand will stand in the way of additional earnings expansion; near term dividend outlook favorable, however.
Goodrich, B. F.	1.03	3.11	0.26(6)	4.31(6)	6.00-7.00	0.75	C-2	Present earnings trend less favorable than earlier this year, but further dividend payments likely.
Goodyear Tire & Rubber	2.10	3.44	1.23(6)	2.23(6)	4.00-5.00	1.00	B-2	Prospective civilian tire curtailment will prevent continuation of earnings uptrend; stable dividend indicated.
Houdaille-Hershey "B"	1.70	2.42	1.60(6)	1.66(6)	2.00-2.75	0.75	C-2	Armament business will be counterbalancing factor to decline in auto demand; dividend prospect favorable.
Kelsey-Hayes "B"	Ag0.62	1.88	NF	NF	2.50-3.50	....	C-1	Improved earnings should permit clearing of all arrears on Class A stock.
Lee Rubber	O2.89	3.66	1.70(6)	1.68(6)	3.50-4.00	1.50	C-2	Little immediate change in dividends likely, though longer term outlook is obscure.
Midland Steel	4.62	5.95	2.79(6)	2.31(6)	4.50-5.50	1.00	C-3	Substantial dependence on automotive business will bring earnings decline and possible cut in dividends.
Motor Products	J1.60	0.26	d0.38(9)	d0.31(9)	NE	....	C-2	Current fiscal year unlikely to equal results of past fiscal year; dividend outlook uncertain.
Motor Wheel	J1.70	2.76	1.96(9)	2.04(9)	NE	0.80	C-2	Continued substantial earnings coverage of $1.60 annual dividend rate indicates no near-term change.
Murray Corp	Ag0.43	0.90	0.69(6)	0.41(6)	0.75-1.00	....	C-2	Earnings prospect bolstered by large aircraft parts orders; moderate dividend may be considered.
Raybestos-Manhattan	2.18	2.70	1.48(6)	1.82(6)	2.50-3.50	1.125	C-2	Small earnings decline expected as auto curtailment takes hold, but defense orders are rising; dividend prospect stable.
Reynolds Spring	S1.03	1.76	3.01(9)	2.83(9)	NE	....	C-2	Company will suffer from pending reduction in automotive business; dividend outlook uncertain.
†Spicer Mfg	Ag2.81	6.36	3.36(6)	4.53(6)	7.00-8.00	2.25	C-1	Military and commercial business booming; larger dividends are in prospect.
Stewart-Warner	0.96	1.18	0.49(6)	0.61(6)	1.00-1.50	0.25	C-1	Rising defense orders will tend to counterbalance declines in normal business; further dividends likely.
Thompson Products	2.66	5.17	3.31(6)	2.89(6)	4.50-5.50	1.00	C-2	Tax reductions will be exceptionally heavy, but relatively good earnings and higher dividends likely.
†Timken-Detroit Axle	J1.64	3.69	NF	2.58(6)	4.00-5.00	2.00	C-1	Large defense business indicates continued high level of earnings and dividends.
Timken Roller Bearing	3.01	3.72	1.20(3)	1.08(3)	3.00-4.00	1.25	B-2	Armament orders will help to offset prospective decrease in automotive demand; little change in dividends likely.
U. S. Rubber	2.01	3.58	0.94(6)	2.07(6)	3.00-4.00	0.50	C-1	Defense activities rising but probably not enough to offset pending automotive decline; further moderate dividends anticipated.
Young, L. A.	Jy2.30	1.19	NF	2.49(9)	2.50-3.00	1.00	C-1	Earnings level may sag later as automotive demand lessens; further near-term dividends likely, however.

Ag—Year ends August. F—Year ends February. N—Year ends November. O—Year ends October. S—Year ends September. J—Year ends June. Jy—Year ends July. d—Deficit. NF—Not available. NE—No estimate.

Aircraft Prospect Is Bright

Further Heavy Expansion in Capacity and Output Is Scheduled

Few major industries have grown more rapidly in two years than the American aircraft industry. At the outbreak of war in September, 1939, output of military airplanes was running about 200 a month. Current production is running at the rate of approximately 1,700 monthly with the likelihood that this rate will attain 2,500 monthly by the beginning of 1942. Production in the first half of this year reached 7,423 military planes, as against 4,224 in the second half of 1940 and 6,200 in all of 1940. Fighter planes have been favored, with about 60 per cent of the total in this category.

Present near-term objective is a 24,000-plane annual total, but the long-term objective—at least as far as can be now ascertained—points to a 40,000-plane turnout, with even 75,000 being mentioned in some quarters as the final objective. Difficulties of obtaining adequate supplies, especially in aluminum and magnesium, as well as in materials for some of the various 25,000 parts that go into a bomber, are likely to complicate the reaching of such a goal, but further large expansion in this industry is a certainty.

From a dollar standpoint, the aircraft manufacturing industry's activities are astronomical. For perspective, it may be noted that the industry's output in 1938 amounted to about one-eighth of a billion dollars. In 1939 it doubled, and in 1940 output jumped to over half a billion dollars. Business on hand exceeds $5,000,000,000, and orders still are piling up. The program for the next year aims at more than $4,000,000,000 worth of production. Carrying out of the program obviously is a terrific task. Preparation for it must constantly go on, with the least possible disturbance to current production.

Capacity must ever be expanding, and present plans include construction of 20 aircraft frame plants, 12 aircraft engine and 66 parts and accessories plants, or little less than an aggregate of 100 new plants, likely to cost around $500,000,000. Labor to run the plants is a growing and serious problem; building air-

planes obviously requires a certain skill and the aircraft companies themselves have had to train their own shop employees, though more lately educational institutions have been aiding. Housing the personnel, too, has incurred exceptional difficulties.

Evidently, bottlenecks in production have developed and are bound to continue, even though green lights are flashing for the industry at every crossing, and it has first ranking as to priorities.

Even though a plentiful supply of one needed material is obtained, the industry may run ahead with that until a shortage in something else is created. This situation, of course, is one reason why so many industries are being drawn into the orbit of aircraft. Most important of the industries supplementing the aircraft industry is the automotive and auto accessory industry, activities of which have been detailed on a preceding page.

While the volume outlook for the aircraft industry is promising, the profit outlook is less so, though additional growth of earnings is a strong likelihood despite rising costs. Somewhat higher labor and material costs may not be as heavily restrictive factors as in some industries, in that protective clauses are obtained with all contracts. The result is that advances in labor and material costs are added to price of the planes on delivery. Important hitch will be taxes, though even increases therein—as indicated in individual earnings estimates in the aircraft table—will not prevent larger earnings and dividends in many cases.

The air transport companies are experiencing equipment and personnel shortage difficulties which are a natural outgrowth of our war economy and which are unlikely to become less a burden for the duration, at least. Nevertheless, there are few fields which hold the long term promise that this industry does. The war, with its expenditures of untold billions of dollars for aircraft, should bring many improvements in air travel facilities. Speed, useful load and range will be increased, making aircraft operations more economical. No nation, moreover, is likely to dismantle its air force after this war. The field of air transportation should expand rapidly, both nationally and internationally, but some of the currently borderline companies and many new companies which ultimately place a stake in the air lines industry will find the competition exceptionally keen.

Position of Leading Aircraft Stocks

Company	EARNED PER SHARE 1935-39 Average	1940	Latest Interim 1940	Latest Interim 1941	Estimated 1941 Earnings	Divs. Paid to Date	Invest. & Market Rating	COMMENT
American Airlines	$0.52	$4.76	$2.48(6)	$1.32(6)	$3.50-$4.50	....	B-3	Profits decline as taxes rise and armament economy presents difficulties; debenture conversions into common likewise will dilute per share earnings. At least a $1 dividend payment likely this year.
Aviation Corp.	N0.12	0.02	d0.07(6)	0.15(6)	0.25-0.35	....	C-1	Increased returns from investments bringing larger earnings even on higher capitalization; a moderate dividend payment may be considered this year.
Beech Aircraft	S 0	0.17	NF	NF	1.00-2.00	....	D-1	Expansion of facilities and output booms sales; high earnings may warrant consideration of a small dividend payment.
Bell Aircraft	0.44	1.14	NF	1.05(6)	x2.00-3.00	....	C-1	New factory at Niagara Falls will help to reduce faster the large $100,000,000 backlog of orders. Impressive earnings and substantial dividend likely despite issuance of new stock.
Bellanca Aircraft	0	0.74	NF	NF	NE	....	D-1	Volume rises but taxes hurt profit margin; dividends do not appear likely for the time being because of working capital needs.
*Boeing Airplane	d1.04	0.35	NF	1.85(6)	4.00-5.00	....	C-1	Company finally is in the black on a large scale. With backlog over $300,000,000, earnings prospects are bright, and resumption of dividends over the intermediate term is anticipated.
Brewster Aero	0.19	0.54	NF	NF	2.50-3.50	$0.30	C-1	Increased capacity will enable large rise in output over last year. Considerably higher earnings indicated, though dividend payments may be dictated by working capital requirements.
†Consolidated Aircraft	1.18	2.30	NF	4.72(6)	6.00-8.00	2.00	C-1	Company's three-quarter-of-a-billion backlog assures huge output for some time; further earnings and dividend expansion are likely over the next few months.
†Curtiss-Wright	0	1.81	0.25(3)	0.58(3)	2.50-3.50	....	C-1	Unfilled orders have passed the billion mark, and despite narrowing profit margin due to taxes and increased costs, further earnings advance and dividend payments are likely.
†Douglas Aircraft	N2.98	18.05	5.65(6)	7.00(6)	15.00-20.00	....	B-1	A material portion of shipments in the current half will involve more-profitable foreign business, with likelihood of further enlargement of aggregate earnings. Dividends should at least equal the $5 payment of 1940.
Eastern Air Lines	0.79	2.80	1.32(6)	1.34(6)	2.50-3.00	....	B-2	This year's earnings helped by a non-recurring profit on sales of old equipment. Higher costs and war-economy complications may stop earnings rise over last year, but favorable financial condition may permit a moderate dividend.
Grumman Aircraft	0.84	2.79	NF	NF	3.00-4.00	....	C-1	Higher taxes and costs reduce profit margin but not enough to prevent a substantial expansion of earnings and the expectation of larger dividends this year than in the past year.
Irving Air Chute	1.81	2.08	NF	NF	2.00-2.50	0.25	C-1	Silk embargo may create later difficulties, but priorities will favor the company. Both domestic and Canadian plants are at record output, with high earnings likely to bring larger dividends.
†Lockheed Aircraft	1.11	3.17	NF	NF	5.00-6.00	....	C-1	Deliveries rise sharply, reflecting previous expansion and huge backlog (not far from $500,000,000). Increased earnings seem assured despite larger taxes and costs; higher dividends also likely.
Martin, Glenn L.	1.45	4.94	3.92(6)	2.69(6)	5.00-6.00	1.50	C-1	Proportion of business done is shifting to favor domestic orders, but earnings still are likely to make good comparison with last year. Dividends over last year's $2 total are anticipated.
North Amer. Aviation	0.55	2.06	0.69(6)	1.13(6)	2.50-3.50	0.75	C-1	Factory capacity rises, making certain faster deliveries against large backlog of around $400,000,000, mostly for U. S. Moderately increased dividends are reasonable expectation.
*Pan American Airways	0.70	1.20	NF	NF	NE	....	C-2	Continued expansion, even now, as well as the likely important position this company will hold in worldwide air commerce after the war point to substantial long-term earnings growth. Working capital needs prevent near-future dividends.
Sperry Corp.	1.76	3.90	NF	NF	5.00-6.00	1.00	B-1	Aircraft and naval products are being turned out in ever-increasing volume, aided by expansion of facilities. Though taxes will be very heavy, earnings and dividends are likely to rise.
Trans. & Western Air	d0.32	d0.24	NF	d0.80(6)	NE	....	C-1	Company long has been one of the more marginal air line operators, and current necessity of using all equipment may increase efficiency. Early dividends are not likely.
United Aircraft	1.61	4.95	2.34(6)	2.10(6)	4.50-6.00	2.00	B-1	Heavy provisions for taxes cut first half earnings, but final year's showing will approximate that of 1940. This year's dividends are likely to exceed moderately those of last year.
United Air Lines	d0.08	0.52	d0.16(3)	d0.68(3)	NE	....	C-1	Defense economy presents complications and will not permit favorable comparison with 1940. Though financial condition is good, poor earnings likely to prevent dividend payment.
Wright Aeronautical	3.06	11.10	4.33(6)	8.90(6)	15.00-20.00	....	B-1	This Curtiss-Wright-controlled airplane-motor manufacturer is likely to expand its earnings and pay larger dividends than in 1940.

N—Year ends November. S—Year ends September. d—Deficit. 0—Average profits and losses balance. NF—Not available. x—On current stock outstanding. *—Recommended for cyclical appreciation. †—Recommended for income and potential appreciation. NE—No estimate.

R. K. O. Photo

Motion Picture Industry Is Favored By Spending Trends

Virtually Unaffected by Priorities, Movies Face Large Benefits from Record High National Income

IN recent years, the motion picture industry has not suffered from lack of attendance quite as much as from a low average admission price. Isolated attempts to increase prices have more often than not resulted in a decline in attendance wherever they were tried and the results were that gross revenues declined despite higher priced tickets. The intense competitive spirit of the business or perhaps the unwillingness of all exhibitors to act concertedly made the application of continued higher admission charges impractical. And, when the theatres' gross income is low, the exhibitors are in no position to pay sizable sums for the pictures which they show. And thus the whole situation is eventually reflected in the earnings of the motion picture producers who are —in many cases—also operators of large chains of theatres as well.

The disinclination of the public to pay higher admission prices has mostly been because of relatively low incomes. When the consumer feels that he is able to satisfy his urge for entertainment without expending an unduly large proportion of his daily income, then prices can be increased. Such conditions prevail at this time, for not only are a great many more persons gainfully employed than in the last decade but also, in many cases, individual incomes are at an all-time high. All of this not only favors higher movie attendance but also improved prices for the privilege.

So far this year, the industry has been in its most unfavorable seasonal period. Yet, judging from admission tax records, attendance has been on an average about 5 per cent higher than last year's satisfactory levels. What will probably be in store for the fall and winter months is indicated by recent holiday receipts which in many instances were 40 per cent to 60 per cent higher than a year ago. And what is more significant, one major theatre chain reported that its July 4th receipts exceeded those of the previous New Year's Day, normally the high spot in receipts for the year.

At a less propitious time, the addition of a further Federal tax might have been harmful to admissions. As it now stands, however, it is without significance, since the new impost does not increase the tax rate but rather makes admission taxes apply to prices that heretofore had been exempt. Dropping the exemption to 9 cents from 20 cents will make very little difference to the

industry which has average prices closer to 30 cents with a 10-cent charge being a rarity. Higher income taxes and excess profits taxes will be of greater importance but here again there are compensations, for the industry is allowed high film amortization rates for tax purposes which need not be applied to the amount available for the shareholders.

Formerly, extravagance in the production of motion pictures was thought to be a necessary evil. Depression times and the necessity of reorganizing some of the leading picture producing companies has disproven it. Production costs were drastically curtailed in depression years and the earlier part of the recovery period. Up to the present time, most of the economies then inaugurated have been continued, with the result that most of the large studios are operating profitably.

There will be, however, increases in the costs of film and labor, but it is probable that the days of throwing money away have passed. Star salaries continue high in relation to the recompense of more prosaic individuals but it must be remembered that a star's salary depends solely upon box office results and is quickly revised downward if popularity fails. Fabulous executive salaries for questionably valuable services are almost a thing of the past, ever since the reorganizers have taken over the operation of some of the largest of the industry's units.

Paramount's Hollywood "lot."

The industry, too, apparently has made its peace with the Government. For the present, at least, there will be a great relief from the enormous legal costs of Government suits. The consent decree accepted by the five larger producers is now in operation and entails a slightly more expensive method of film distribution.

That this new method will be a permanent affair is not at all assured, for under the terms of the decree the Government must be able to make three other companies who were not included in the suit conform to the practices outlined in the decree before it can make the signers continue the recommended method of booking. Since the other three have no theatres, and were thus outside the scope of the Government's suit, it will be difficult to make them adopt a more expensive and less advantageous method of selling their products.

Foreign income was once one of the mainstays of the larger companies. War conditions have virtually eliminated this source of revenue except from England and Western Hemisphere nations. Even the amount of income which can be repatriated from England is limited but, so far, the amount actually received has been helpful and the companies are actively pressing for the release of frozen British balances.

In view of the lease-lend program, the motion picture companies with balances in England have a better than 50-50 chance of bringing them home in the relatively near future.

Position of Leading Motion Picture Stocks

	EARNED PER SHARE							
Company	1935-39 Average	1940	Latest Interim 1940	Latest Interim 1941	Estimated 1941 Earnings	Divs. Paid to Date	Invest. & Market Rating	COMMENT
Columbia Pictures	J$2.15	$0.84	$0.51(9)	$0.33(9)	$0.50-$0.75	....	D-3	Decline in returns from the formerly important European market brings decreased earnings and makes early future cash payments on the common stock unlikely.
Consolidated Film	d0.06	d0.40	d0.04(3)	d0.05(3)	NE	....	E-2	Economizing by the industry dulls the outlook for this film processing company; substantial preferred dividend arrears stand in the way of common dividend payments.
★Loew's, Inc	Ag6.14	4.82	4.39(9)	3.92(9)	3.50-4.50	$1.00	B-3	Comparison of earnings with those of last year unimpressive because of 1940 major success, Gone With The Wind. Earnings and dividend prospects from this point on, however, are stable.
†Paramount	1.29	2.63	1.01(6)	1.56(6)	2.75-3.50	0.40	C-1	Large theatre chain contributes heavily to improved earnings; higher dividends unlikely in near future, because of certainty of an increase in tax payments this year, and a desire to accumulate reserves for various contingencies.
Radio-Keith-Orpheum	NF	d0.46	def(6)	0.04(6)	0.50-0.75	....	D-1	Prospects for this ordinarily marginal earner grow better in current period of record public buying power. Additional dividends on the preferred stock are likely.
Technicolor	0.71	0.99	NF	NF	NE	0.50	C-2	Volume business is at a new high, but higher costs and taxes are obstacles to much earnings rise; favorable financial condition will permit further dividend payments.
20th Century-Fox	2.69	d1.09	0.03(3)	0.03(3)	NE	....	C-2	Heavy foreign reserve charges depress earnings, but improving domestic prospects indicate substantially better earnings this year than in 1940. Common dividends are not imminent, however.
Warner Brothers	Ag0.61	0.63	0.58(9)	1.12(9)	1.10-1.35	....	D-1	Showing for year ended in August will be excellent, aided by providing for taxes on the fiscal year basis; common dividends, however, are likely to await further strengthening of finances.

★—Recommended for income. †—Recommended for income and potential appreciation. Ag—Year ends August. J—Year ends June. d—Deficit. NF—Not available. NE—No estimate.

New Records for Merchandising Volume

But Earnings Gains Are Sharply Restricted by Rising Costs and Taxes

Generally speaking, the outlook for retail trade is one of continued gains in keeping with the advance in consumer incomes. However, all branches of this widely spread industry will not fare equally as well. For instance, it is probable that department stores, mail-order houses and specialty shops will show a greater degree of improvement than, for instance, the variety stores, grocery chains and other similar merchandising systems.

Most of the large department stores do not publish interim earnings because of the strongly seasonal nature of the business wherein the largest profits are realized at the Christmas and Easter seasons. But a sufficiently large number of them do release monthly or periodical sales figures, so that it is possible to form a fairly accurate idea of the trend of the business.

Currently available department store figures indicate that their sales are running from 10 per cent to 20 per cent higher than a year ago. The variations occur in the relative prosperity of the consumers in the areas reporting. Thus, department store trade in the industrially active middle west is showing a better rate of gain than, for instance, in the metropolitan area of New York City. It must be borne in mind that New York sales are always greater in dollar volume than in the less populous and prosperous areas elsewhere. Hence, a gain of 10 per cent in New York City department store sales might be equal to a gain of double that amount on the West Coast. So far, prices have increased at a greater rate than the physical volume of sales, with the result that while the average physical volume of sales was 12 per cent higher than a year ago, the cash volume averaged about 15 per cent.

The outlook for the balance of the year is quite as promising as in the earlier part of the period, although it is hardly possible that the same rates of improvement will be maintained. Nevertheless, on the whole, retail sales volume is expected

to pass that of 1929 during the coming Christmas season. But it is hardly possible that the new high record of sales volume will be productive of equally as high profits as in the earlier period. Taxes, higher material costs and wages will all take an increasingly large part of net sales income and these factors promise to continue to advance long after the peak of physical sales volume has been reached. Nevertheless, there should still be ample profits remaining to make a much better earnings showing than in the earlier post-depression years.

Because of the wider influence and much larger selection of merchandise, it is not surprising that the mail-order houses and their affiliated retail stores are making a better than average showing in the year to date. Combined sales figures of the two leading mail-order houses indicated that early sales were running at better than 22 per cent higher than a year ago and since that time the gain has been even greater. Later in the year these institutions will begin to benefit from price differentials over local department stores, for both of them have followed a far-sighted inventory policy and have large stores of merchandise which they can profitably sell at retail below the probable future wholesale price of the same commodity if purchased at a later date.

The mail order end of the business has been running approximately 15 per cent above last year's levels, reflecting higher rural incomes in great part. Their affiliated retail stores, however, have been making a much better than average showing due mostly to the fact that these stores are located in active defense areas where increased purchasing power of the consumer will be most keenly felt. Recently released fall catalogues show some upward adjustment in prices, although many important items were unchanged. Large stocks of staple merchandise are on hand and commitments have been made well ahead for others. Despite such precautions, the new catalogues do not guarantee prices and there is no danger to the companies through any sudden advances in wholesale or material prices.

Grocery chains and similar food stores may expect to continue to do a better dollar business, although in order to continue to maintain physical volume it will be necessary for them to absorb a substantial part of increased costs. In the past, food stores made better profits per unit during depression periods when prices were all low than in boom times when prices all were high.

(Please turn to page 599)

Position of Leading Merchandising Stocks

Company	EARNED PER SHARE 1935-39 Average	1940	Latest Interim 1940	Latest Interim 1941	Estimated 1941 Earnings	Divs. Paid to Date	Inv. & Market Rating	COMMENT
*Allied Stores	J$0.89	$1.57	$0.10(3)	$0.72(3)	$1.75-$2.25	....	C-2	Continues to acquire new stores, further expanding sales; working capital requirements may preclude early common dividends.
American Stores	1.02	0.76	0.68(6)	0.65(6)	0.75-1.00	$0.25	C-2	Better showing expected in this half vs. first half; dividend prospects are static.
Arnold Constable	J0.94	1.34	NF	NF	1.50-2.00	0.50	C-2	Though profits are narrowing, both earnings and dividends likely to show moderate increase over 1940.
Associated Dry Goods	J0.33	1.87	Def (6)	Def (6)	1.75-2.00	....	C-2	Improved operations may enable clearing of second preferred arrears this year.
Best & Company	J3.75	3.63	1.29(6)	1.48(6)	3.50-4.25	1.60	C-2	Tax burdens will be heavy, but increased dividends over 1940 likely.
Davega Stores	Mr0.38	0.23	NF	NF	0.72A	0.30	D-2	Better buying power advances earnings; moderate dividend increase possible.
★Federated Dept. Stores	J2.51	2.90	NF	NF	2.50-3.25	1.45	C-2	Good earnings likely to bring further dividend increase over 1940.
First National Stores	Mr3.55	3.34	NF	NF	3.06A	1.875	C-2	Additional dividend payments over the 1940 rate likely.
*Gimbel Brothers	J0.50	1.21	NF	NF	1.25-1.75	....	C-2	Earnings prospect good, but working capital needs stand in the way of near-term common dividend payments.
Grant, W. T.	J2.87	2.68	NF	NF	2.25-3.00	1.05	C-2	Little change anticipated, either in earning trend or dividends.
★Green, H. L.	J3.13	3.46	NF	NF	3.00-4.00	2.00	C-2	Another substantial extra dividend likely to be paid at year end.
Interstate Dept. Stores	J1.00	1.28	NF	NF	1.25-2.00	0.45	C-2	Industrialized locations help earnings; larger dividends expected.
Jewel Tea	2.78	2.82	NF	NF	2.50-3.00	1.80	B-2	Expansion is building volume; earnings and dividend prospect stable.
Kresge, S. S.	1.86	1.83	NF	NF	1.50-2.00	0.75	C-2	Both earnings and dividend outlooks are static.
Kress, S. H.	2.05	2.09	NF	NF	1.75-2.25	0.80	C-2	Profit margins decline, but earnings and dividends may be little changed from 1940.
Kroger Grocery	2.10	2.49	NF	NF	2.25-2.75	1.50	C-2	Fair earnings outlook justifies continuing generous dividends.
Lerner Stores	J4.15	3.18	NF	NF	3.00-4.00	1.50	C-2	Maintenance of dividends or small increases are anticipated.
Macy, R. H.	J2.24	2.38	NF	NF	2.00-3.00	1.00	C-2	Current earnings trend points to full dividend continuation.
Marshall Field	0.04	2.47	0.58(6)	0.62(6)	2.25-3.00	0.50	C-2	Interest savings aid; small dividend increase likely.
★May Dept. Stores	3.52	4.10	NF	NF	3.50-4.50	1.50	B-2	Current $3 annual dividend rate well supported by earnings.
McCrory Stores	1.87	2.05	NF	NF	1.75-2.25	0.50	C-2	Outlook for both earnings and dividends is static.
Melville Shoe	2.27	2.96	1.29(6)	1.38(6)	3.00-3.50	1.50	C-2	Taxes cut profit margin but earnings and dividend prospect stable.
Montgomery Ward	J3.62	4.14	0.73(3)	0.60(3)	3.50-4.50	1.50	B-2	Large mail order house is hit hard by taxes, but full year's earnings should make fair comparison with 1940; unchanged dividends likely.
★Murphy, G. C.	5.49	6.58	NF	NF	6.00-7.00	2.00	B-2	Current $4 annual dividend rate is likely to continue.
National Tea	d0.82	0.43	0.24(6)	0.10(6)	0.20-0.35	....	D-3	Common dividend resumption is obstructed by preferred arrears.
Newberry, J. J.	5.21	4.53	NF	NF	4.00-5.00	1.20	C-2	Full maintenance of dividends or a small increase is likely over the intermediate term.
Penney, J. C.	6.37	5.91	2.24(6)	2.56(6)	5.75-6.50	1.50	A-2	Excess profits will hurt, but liberal $5 annual dividend is likely to be maintained.
Reliable Stores	1.47	1.75	0.12(6)	1.26(6)	2.00-2.50	0.25	C-2	Sharp rise in earnings likely to bring dividend increase.
Safeway Stores	4.07	4.76	NF	NF	4.00-5.00	1.50	C-2	Modernization helps volume; dividend prospects stable.
Sears, Roebuck	J5.28	6.32	NF	NF	5.75-6.75	2.25	B-2	Dividends likely to be practically unchanged from 1940.
Shattuck, F. G	0.59	0.25	d0.06(6)	0.22(6)	0.40-0.60	0.20	C-2	Quality food demand outlook good; moderate dividend increase likely.
Spalding, A. G	Od1.12	d0.77	NF	NF	NE	....	D-2	High public purchasing power will bring improvement over last year's poor results; preferred arrears block common dividends.
Spiegel, Inc	1.56	1.05	0.34(6)	0.21(6)	0.60-1.00	0.45	C-3	Bank loans and smaller earnings make full continuation of dividends at the 1940 rate questionable.
Woolworth	3.19	2.48	NF	NF	2.00-2.75	1.60	B-2	Important British subsidiary may continue to yield less, but dividend disbursements will remain relatively generous.

J—Fiscal year ends January of following year. Mr—Fiscal year ends March. d—Deficit. A—Actual. O—Year ends October. NF—Not available. NE—No estimate. ★—Recommended for income. *—Recommended for cyclical appreciation.

Wartime Economy Booms Chemicals

WITHIN recent weeks, chemicals have become relatively scarce in some divisions. So great is the scarcity that several of the more common items such as chlorine and formaldehyde have been placed upon the list of critical materials and their sale is now subject to priority ratings. Other items are expected to follow. The scarcity is not the result of any lack of raw materials but rather because defense industries expect to be able to consume them at a greater speed than they now can be produced. This holds no adverse implication for the chemical manufacturers but rather for the consumers of various chemicals in the making of products having no direct connection with defense efforts.

On the whole, it is expected that the chemical manufacturers will probably do at least 20 per cent more business in 1941 than they did in 1940 although it is also expected that the same rate of improvement will not be evident in net incomes. Of course, one of the major reasons for the expectations of restricted gains in net income is higher taxes. Others include the unquestionably higher manufacturing costs — both labor and raw materials — and the large charges against expansion expenditures which will be permitted by law because such improvements have been made in the interest of national defense. In a good many instances, however, net income *before taxes* may show as much as a 50 per cent gain over that of a year ago but after the normal income and excess profits levies have been met, the industry as a whole will probably do well to be able to report a gain of as much as 10 per cent over a year ago in the amount of income which will be available for common stock dividends.

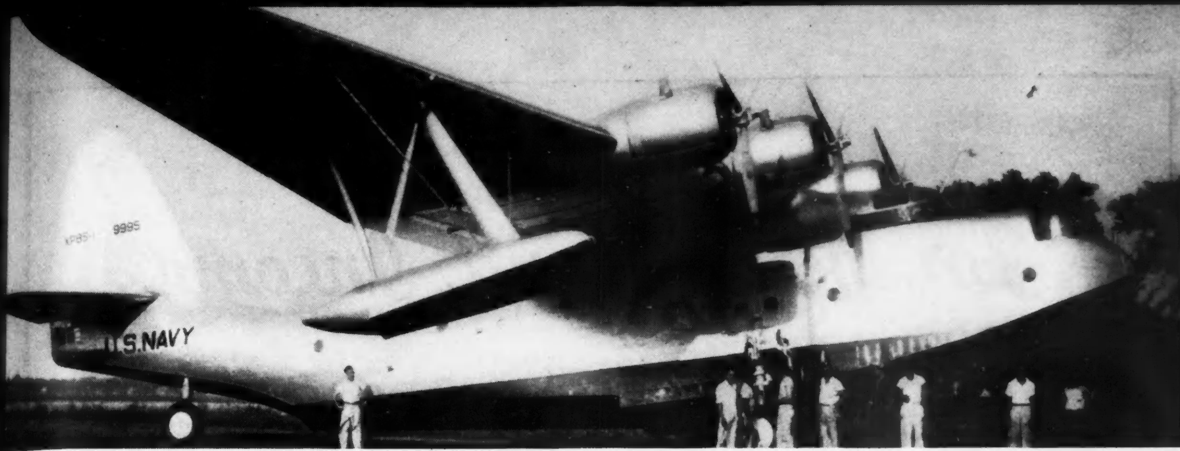
While all divisions of the chemical

(*Please turn to page* 594)

Position of Leading Chemical Stocks

Company	EARNED PER SHARE 1935-39 Average	1940	Latest Interim 1940	Latest Interim 1941	Estimated 1941 Earnings	Divs. Paid to Date	Inv. & Market Rating	COMMENT
†Air Reduction	$2.24	$2.38	$1.15(6)	$1.50(6)	$2.50-3.00	$1.50	A-1	Boom in heavy industry demand indicates larger earnings and moderate increase in dividends.
Allied Chemical & Dye	9.35	9.43	NF	NF	9.00-10.00	3.00	A-2	Continued good earnings indicate substantial year-end extra.
Amer. Agric. Chem	J2.02	1.45	d0.17(9)	0.24(9)	1.50-2.00	0.60	C-1	Higher costs hurt, but larger earnings and divs. expected.
Amer. Cyanamid "B"	1.69	2.44	0.85(6)	0.93(6)	2.50-3.00	0.45	B-1	Taxes will prevent much earnings gain; dividend prospects are stable.
†Atlas Powder	3.59	5.71	2.29(6)	3.04(6)	6.00-7.00	1.50	B-1	Munitions demand booms volume; both earnings and dividends likely to rise.
Columbian Carbon	6.36	5.71	3.46(6)	3.54(6)	5.75-6.50	2.00	B-1	Dividends and earnings prospect is approximately static.
Commercial Solvents	0.59	0.91	0.39(6)	0.34(6)	0.75-1.00	0.25	C-2	War economy brightens prospect with demand for industrial solvents improving as new munitions plants are completed.
Dow Chemical	My4.07	6.65	NF	NF	6.65A	2.25	A-1	Though hard hit by excess profits taxes, generous dividends will continue.
†Du Pont de Nemours	6.24	7.17	3.90(6)	3.62(6)	6.50-7.50	3.50	A-1	Fundamental volume growth likely to continue; stability of dividends indicated.
Freeport Sulphur	2.43	3.81	1.88(6)	2.08(6)	3.75-4.50	1.50	B-1	Improved earnings may permit slightly larger dividends.
Hercules Powder	2.77	4.01	2.30(6)	1.95(6)	3.50-4.50	1.20	A-2	Taxes and other charges restrict earnings gain, but volume prospects are bright and dividend outlook stable.
Heyden Chemical	3.75	6.26	NF(3)	2.05(3)	6.00-7.00	1.50	B-1	Earnings and dividends prospects favorable despite high taxes.
International Agric. Chem.	Jd0.94	d1.57	NF	NF	NE	....	D-2	Amended recapitalization plan is pending.
Mathieson Alkali	1.43	1.72	0.90(6)	1.10(6)	1.75-2.25	0.75	C-1	Earnings trend indicates good support for current dividends.
Monsanto Chemical	4.12	4.26	2.24(6)	2.38(6)	4.00-4.50	1.50	A-1	Earnings prospect indicates generous year-end extra.
Newport Industries	0.87	0.50	0.42(6)	0.44(6)	0.75-1.00	0.25	C-1	Better naval stores outlook promises larger earnings and dividends.
Texas Gulf Sulphur	2.28	2.38	1.17(6)	1.24(6)	2.00-2.50	1.50	B-1	Good earnings promise continued generous dividend payments.
†Union Carbide	3.73	4.55	2.15(6)	2.30(6)	4.00-5.00	2.25	A-1	Highly progressive company has favorable earnings and dividend outlook despite heavy tax rise.
United Carbon	4.75	3.36	1.24(3)	1.36(3)	3.00-4.00	1.50	B-1	Little change either in earnings or dividends anticipated.
United Dyewood	1.02	d0.71	NF	NF	NE	....	C-1	Foreign business drop precludes early preferred dividends.
U. S. Industrial Alcohol	Mr0.63	1.06	NF	NF	2.73A	0.75	C-1	Industrial alcohol prospect bright; larger dividends likely.
Victor Chemical Works	1.27	1.45	0.32(3)	0.46(3)	1.50-2.00	0.60	C-1	Plant expansion lowers costs; dividend prospect stable.
Westvaco Chlorine	1.78	2.96	1.72(6)	1.65(6)	2.75-3.25	1.05	C-2	Outlook is approximately static, both for earnings and dividends.

J—Year ends June. Mr—Year ends March. My—Year ends May. d—Deficit. A—Actual. NE—No estimate. NF—Not available. †—Recommended for income and potential appreciation.



Consolidated Aircraft Tops The Field In Profit Gain

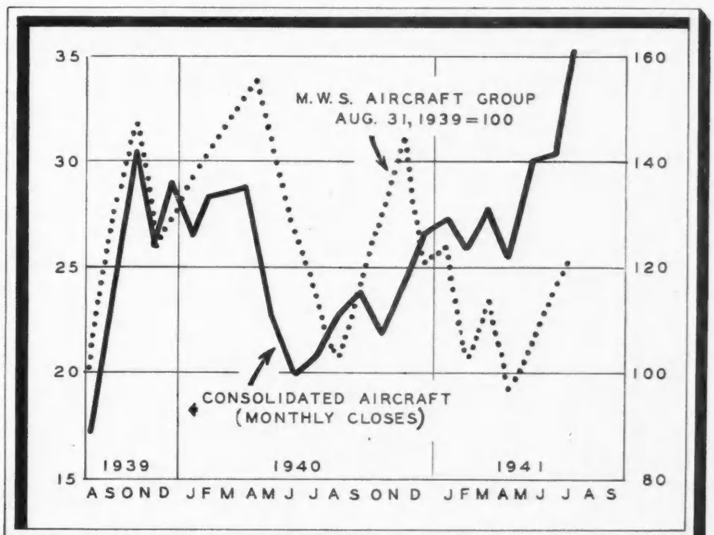
BY ROGER CARLSON

If Consolidated Aircraft's mid-year 1941 statement is any criterion of what is yet to come, the strong action of the company's shares in the stock market has an excellent basis in fact. The statement was a symposium of new high records.

For instance, sales in the initial half year totaled $35,930,488 as compared with $408,405 in the same months of 1940, $9,349,550 for the full year 1940 and $12,245,000 for the entire year of 1938 which marked the previous high in volume for any one year. It is probable that the full year 1941 sales will be not less than six times greater than in any previous year.

During the period under discussion, Consolidated Aircraft received the largest single order ever placed for military aircraft. This was an order for an undisclosed number of four-motored land bombers of the B-24 type, placed by the U. S. Army Air Corps at a reputed cost of $226,000,000. These and other orders which accrued during the first half of the year brought Consolidated Aircraft's backlog of unfinished orders up to a total of better than $750,000,000 and the total of orders received during the period to $413,479,552. The unfilled order backlog is, of course, at new record highs. At the present time, Consolidated's order backlog represents approximately 17 per cent of the entire industry's total and again constitutes another new record.

The achievement of these new records involves no magic other than the company's ability to organize and expand production facilities while at the same time making the best possible use of all production equipment already on hand. The more recent history of the company has been marked by almost continuous building and growth. When a new plant was added, plans were already in existence to further increase the latest addition's capacity at any time the management felt it to be necessary. With many new additions coming into operation during the first half of the year, an increase in sales volume was to be expected atlhough perhaps not on any such scale as was reported. Indications are that during the period from January to the end of June, Consolidated produced four times as many planes as in the whole of 1940 and during May and June alone, monthly production was well in excess of that of the entire 12 months of the previous year. And 1940 production was not considered to be picayune at the time it was reported. And, *(Please turn to page 595)*



For Profit and Income

South American Bonds

Recent strength in the external bonds of most of the South American republics has raised prices to the best levels of the year. Higher prices have their origin in a number of favorable factors. The most notable of these is the rapidly mounting purchases by the United States in Latin America of materials essential in the defense program. This buying has been of timely economic assistance to our South American neighbors, enabling them to make up the loss in European trade and accumulate dollar exchange. Favorably affected by the accumulation of strategic and critical raw materials are copper from Chili and Peru, manganese from Brazil and Cuba, lead from Mexico, tin and tungsten from Bolivia, wool, hides and corned beef from Argentina and Uruguay. Another factor favoring the South American internal situation has been the improvement in political conditions. Belated action has been taken in several countries to rid themselves of the Nazi fifth column menace. These several factors promise to be cumulative and give rise to hopes that the heavy losses suffered in South American bonds by investors in the United States may be materially cut down.

R.R. Reorganization Securities

Frequent postponements, delays and litigation in connection with railroad reorganizations have had the effect of building up an attitude of indifference on the part of owners of securities of bankrupt carriers. Holders of these securities, however, should take heed of the fact that several roads have emerged from receivership this year and at least one other—Erie—will do so in the near future. Holders of junior bonds of the Erie will receive several issues of new securities of the reorganized road. The new securities are now selling on a "when issued" basis, while the old securities are quoted at prices practically on a par with the value of the securities to be allotted in exchange. Unless holders of the old securities prefer to await the culmination of the reorganization and accept the several issues of new securities, generally it would be a good plan to sell the old securities now. Only one brokerage commission would be involved, whereas several would be incurred if sale is postponed until new securities are issued.

Sperry Report

The report of Sperry Corp. for the first six months of the current year is particularly noteworthy, aside from the fact that it revealed new highs for production, shipments and earnings. Of particular interest is the company's twofold action to cushion the possible effects of a post-war slump. Out of first-half earnings, the sum of $433,316 was appropriated and earmarked for the purpose of readjusting facilities and personnel in the post-war period. The company expressed its intention of adding to this sum until a sufficient reserve had been accumulated. In addition the company adopted the policy of amortizing defense pro-

General Motors is well in the van of the defense program. Allison aircraft motor shown above are only a part of the company's $1,200,000,000 stake in defense.

duction facilities over three years, rather than the five-year period permitted under the present tax law. As a result, all facilities acquired since January 1, 1940, would be written off in three years beginning January 1, 1941, or from the date of acquisition if subsequently acquired. The company reported net income for the first six months of this year equal to $2.03 a share, after allowance for Federal income and excess profits taxes under the proposed rates now before Congress. In the first half of 1940 profits were equal to $1.52 a share.

Aircraft Makers

The backlog of unfilled orders in the aircraft industry is now estimated at $5,500,000,000, or enough for three to five years of operations at current production rates. Most of the leading companies reported a good gain in first-half profits, but the increase was disproportionately small both in relation to the huge volume of business and shipments, and the gain reported by other manufacturing groups. Taxes were responsible, increasing some 500 per cent over the first six months of 1940. While it is true that the average aircraft company is particularly vulnerable to excess profits levies because of modest caiptalizations and the low state of earnings prior to the war, most of them appeared to have leaned over backward in the matter of setting aside tax reserves. The probabilities are that this group of companies will continue to show good earnings but future gains will be restricted. It is a practical certainty that additional wage demands will be made. Moreover, an increasing number of contracts are being placed on the cost-plus-fixed fee basis, which may or may not yield a profit, depending upon the accuracy in estimating future costs when bids are submitted.

May Department Stores

Recent action of May Department Stores shares suggests that investment buying has been attracted to this issue. At recent levels around 53, the shares are selling about 3 points under their 1941 high. Retail trade in most sections of the country is experiencing a veritable boom and, as might be expected, the greatest gains are being recorded in industrial sections, where unemployment is rapidly disappearing and consumer purchasing power is increasing by leaps and bounds. The seven stores operated by May Department Stores are located in the cities of Akron, Baltimore, Cleveland, Denver, Los Angeles (2) and St. Louis. Despite the fact that the majority of these cities are largely dependent upon manufacturing activity, imparting a greater measure of variation in the company's sales and earnings, year in and year out May's record of earnings and dividends has been superior to that of most department stores. In the present setting the company is in a favored position to cash in on the greater willingness and ability of industrial workers to spend their earnings. For the fiscal year ended January 31, last, the company reported earnings equal to $4.10 a share for the common stock, after setting aside $350,000 for excess profits taxes. In the previous year $3.58 a share was shown. No interim reports are available at this time, but it is a safe assumption that profits are running ahead of last year, even allowing for a currently higher tax bill. Paying dividends at the rate of $3 annually, the shares appear to be a worthwhile income investment.

First-Half Earnings of Representative Companies

Issue	6 mos. '41 to June 30	6 mos. '40 to June 30	Full Year 1940
American Chain & Cable	1.75	1.04	2.75
American Home Products	2.71	2.68	5.32
American Locomotive	1.18	d0.07	0.50
American Machine & Foundry	0.60	0.64	1.33
American Smelting & Refining	2.29	2.12	4.21
Armstrong Cork	1.69	1.42	2.79
Bath Iron Works	1.01	1.87	4.90
Boeing Airplane	1.86	d0.10	0.35
Bower Roller Bearing	2.19	1.89	3.72
Colgate-Palm.-Peet	1.21	0.45	1.72
Hercules Motor	1.63	0.70	1.64
Homestake Mining	1.40	1.80	3.03
Lehn & Fink	1.14	0.76	....
Servel, Inc	0.51	0.59	1.67
Standard Oil of California	0.98	0.79	1.73
United Carbon	2.41	2.27	3.36

So They Say

Lots of people like the liquor stocks. No priorities. Ample inventories and consumer purchasing power rising. These are the liquor companies' best bets to offset increased taxes. . . . Colorado Fuel & Iron will show about $4 for the current fiscal year. . . . It is rumored that a plan of recapitalization to discharge preferred dividend arrears is being considered by Minneapolis-Moline Powei Implement. . . . Office equipment makers are worried over priorities. . . . Victor Chemical is cashing in on vitamins. . . . The talk now is all centered on gasoline rationing but the real squeeze will come this winter when fuel oil consumption will make new high records. . . . The market gloom which has fallen over the shares of the two leading finance companies is reminiscent of the action of movie stocks in the first months of the war and like the movie stocks it may turn out to have been overdone. . . . Earnings of United Fruit are holding up remarkably well in spite of the dislocations in the company's overseas markets. First half net was estimated at $3.67 a share compared with $3.20 last year.

U. S. Industrial Alcohol

The market performance of U. S. Industrial Alcohol over recent sessions has been head and shoulders above that of the averages, with the stock selling (as this is written) at the high for the year of 33½ compared with a low of 20 and a range

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Answers to Inquiries

The Personal Service Department of The Magazine of Wall Street will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Lambert Company

In the past year you have favored me with your opinion on my investments and again may I ask what the outlook is for Lambert Company. My 75 shares representing 10 per cent of my portfolio were purchased last year at 15⅞. Is the company particularly vulnerable to taxes and are they making provisions for possible increased taxes? How is the company progressing in sales campaign on products such as Listerine? Is the enlargement of our army going to aid earnings?—in short, please give me a complete appraisal of the company, the capital setup of which I am familiar, as well as the prospects for price appreciation.—Mr. K. W. C., Montgomery, Ala.

In the first three months of 1941 Lambert Co. earned 64 cents per common share as compared with 54 cents per share for the corresponding period of 1940. In the second quarter of 1941 23 cents per share was earned as compared with 15 cents per share for the like period of 1940. Consequently, on a six months' basis earnings were 87 cents per share for the 1941 period as compared with 69 cents per share for the 1940 period. These earnings were after provisions for taxes at prevailing rates, plus $75,000 for contingencies in the first quarter. In the second quarter $24,000 additional was set aside for possible increases in taxes. It appears that Lambert Co. is showing not only improved earnings before taxes but after higher tax burdens and reserves for contingencies for a further increase in taxes, is still able to show improvement. For the year 1940 earnings were $1.57 per share, slightly under the $1.69 per share for the year 1939. The dividend record of the company has been quite liberal and it is believed that with the modest upturn in earnings in face of current obstacles that current rate will probably be continued over the near term.

The sales of Listerine antiseptic appears to have reversed the declining trend but are still considerably below the high point reached some time ago. This is caused primarily by the increased competition in the field, offset somewhat by intensive sales efforts and diversification of products. Higher consumer purchasing power should aid the sales of Listerine products as well as the brush division under the Prophylactic trade name. The main problem for the company is the high and expensive sales promotion programs which are necessary to maintain competitive sales position.

In view of the fact that 10 per cent of your portfolio is represented by your commitment in this stock it is our belief that it is somewhat high in view of the restricted earnings expansion possibilities. The yield, of course, is good but if additional taxes beyond the estimated amount be enacted or some other expenses above that which is provided for the company would automatically become increasingly vulnerable to such an event. Price appreciation is not considered to be imminent under present day conditions. Earnings expansion appears likely only if costly sales campaigns are able to improve the competitive position of the company's products. At this time we counsel retention of your holdings but advise keeping in close touch with developments over the near term.

Union Bag & Paper Corp.

Last year when I bought 85 shares of Union Bag & Paper Corp. stock at $14 per share I was told that earnings would be very high with imports from the Scandinavian countries cut off. In the first six months of 1941 earnings were lower than for the same period last year—what caused this decline? The shares do not seem to do very much marketwise. I expected an advance. Do you think that prices will do better now since it looks as though the war will continue to make it impossible to import paper pulp? Please tell me what you would do if you were in my position.—Mr. R. C. T., Santa Barbara, Calif.

In the first quarter of 1941 Union Bag & Paper Corp. earned 33 cents

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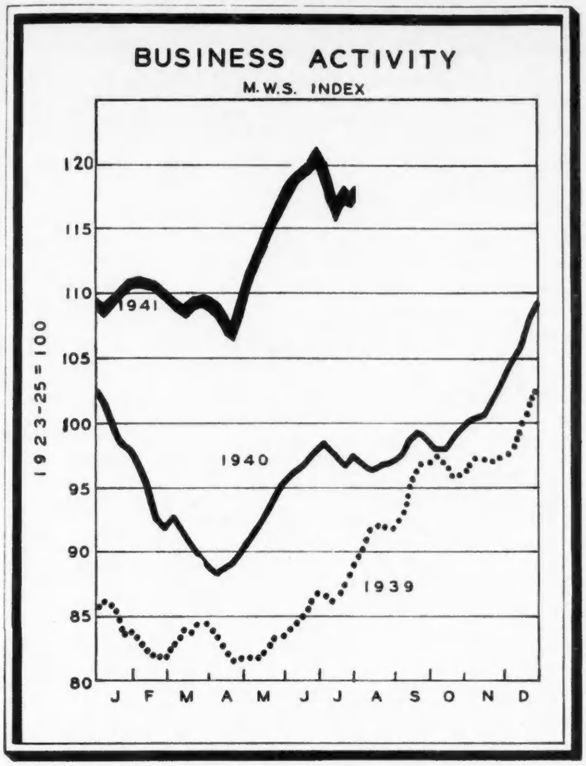
When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.



CONCLUSIONS

INDUSTRY — Defense output marks time awaiting completion of new plants.

TRADE—Shrinking supply of durables channels consumer demand into soft goods.

COMMODITIES—New highs for agricultural commodities; other commodities stymied by price control.

MONEY AND CREDIT—Excess reserves down 30% in year. Commercial borrowings temporarily lower.

The Business Analyst

Per capita **Business Activity** has picked up nearly a point since our last issue, but is still two points below the June peak. A decline in **Machine Tool** output last month adds further support to the suspicion that defense production during July increased little, if any, over the June record, and probably will have to mark time for a few months until new plants can be brought into production. Meanwhile the huge quantity of metals required to build these plants is probably as much responsible as demand from actual production of armaments for the shortages which are forcing curtailment in the output of consumer durables.

* * *

A compilation by the National Industrial Conference Board finds that corporate profits after tax reserves in the first half averaged 20% above last year, despite the circumstance that taxes took 52% of net before taxes, against only 27% in the like period last year. Before taxes, earnings increased 82%. Since most of the increased earnings came from Government spending, a kick-back of slightly more than half of the windfall can scarcely be regarded as extortionate.

* * *

Legislative action to control **Prices** has been postponed for at least three months, which

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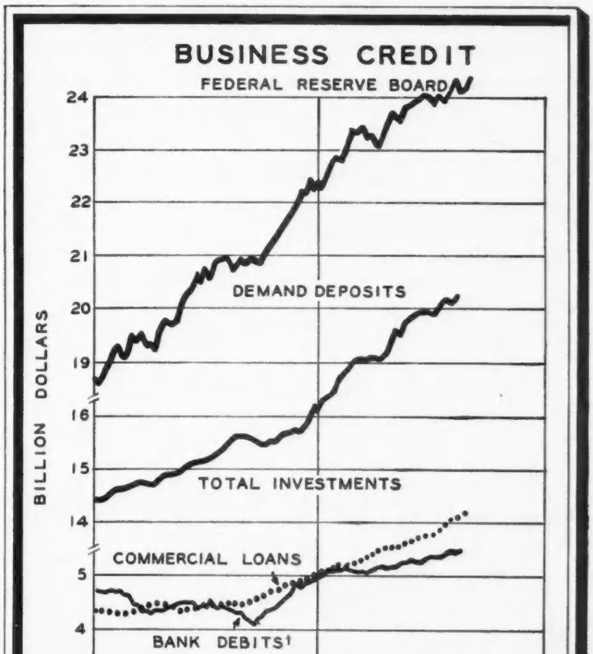


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	July	162(pl)	156	121
INDEX OF PRODUCTION AND TRADE (b)	July	111	110	91
Production	July	116	114	91
Durable Goods	July	122	118	82
Non-durable Goods	July	112	112	97
Primary Distribution	July	104	104	89
Distribution to Consumers	July	107	105	93
Miscellaneous Services	July	102	110	91
WHOLESALE PRICES (h)	July	88.2	86.9	77.7
INVENTORIES				
Inventories	June	128.3	126.3	108.6
New Orders	June	228	207	133
Shipments	June	190	180	126
COST OF LIVING (d)				
All Items	July	88.9	88.5	86.3
Food	July	86.2	85.5	80.9
Housing	July	88.4	88.2	86.8
Clothing	July	73.8	73.6	73.1
Fuel and Light	July	87.8	86.7	84.5
Sundries	July	98.7	98.6	97.4
Purchasing value of dollar	July	112.5	113.0	115.9
NATIONAL INCOME (cm)†	June	$7,650	$6,835	$6,405
CASH FARM INCOME†				
Farm Marketing	June	$766	$747	$562
Including Gov't Payments	June	791	771	587
Total, First 6 Months	June	4,333	......	3,824
Prices Received by Farmers (ee)	July	125	118	95
Prices Paid by Farmers (ee)	July	129	126	122
Ratio: Prices Received to Prices Paid (ee)	July	97	94	78
FACTORY EMPLOYMENT (f)				
Durable Goods	June	134.7	131.2	99.8
Non-durable goods	June	120.8	118.7	106.2
FACTORY PAYROLLS (f)	June	152.0	144.0	99.5
RETAIL TRADE				
Department Store Sales (f)	July	113	104	92
Chain Store Sales (g)	July	141	133	119
Variety Store Sales (g)	July	145	139	124
Rural Retail Sales (j)	June	163.2	161.8	137.7
Retail Prices (s) as of	July 1	99.5	98.9	92.8
FOREIGN TRADE				
Merchandise Exports†	June	$338	$385	$350
Cumulative year's total† to	June 30	2,093	......	2,064
Merchandise Imports†	June	280	297	211
Cumulative year's total† to	June 30	1,594	......	1,294
RAILROAD EARNINGS				
Total Operating Revenues★	June	$455,023	......	$344,953
Total Operating Expenditures★	June	298,932	......	252,507
Taxes★	June	51,525	......	33,692
Net Rwy. Operating Income★	June	93,261	......	48,091
Operating Ratio %	June	65.70	......	73.20
BUILDING Contract Awards (k)	July	$577	$539	$399
F. H. A. Mortgages				
Selected for Appraisal†	June	29	147	109
Accepted for Insurance†	June	22	95	84
Premium Paying†	June	17	65	54
Building Permits (c)				
214 Cities†	July	138	120	111
New York City†	July	18	15	13
Total, U. S.†	July	156	135	124
Engineering Contracts (En)†	July	$348	589	$959

PRESENT POSITION AND OUTLOOK

(Continued from page 587)

leaves Mr. Henderson to play solitaire with his price ceilings. **Retail prices** of dry goods and home furnishings are thus far only 9.3% above last year; but **wholesale prices** average 16% higher, including a 24% boost in foodstuffs. Excluding farm products and foods, the rise has been only 10%. Washington predicts that a further advance in prices this autumn will increase the nation's 1941 **food** bill by $2 billions. Wives of white collar workers are turning grey prematurely over the effort to make ends meet. Next year they will have to skimp even more to meet the first income tax ever levied upon the underprivileged.

* * *

Apparently the instalment regulations, unless made much more drastic later, will have little effect upon prices or upon the rising demand for consumer goods, which will be channeled more by shortages of durable goods than by credit restrictions into non-durable goods. In these there will be a veritable boom for the duration. As to foods, this will continue after the war; for Europe is starving and America has a surplus. That the boom in non-durables has already arrived is witnessed by recent trade reports. Thus **department store sales** in the week ended Aug. 16 were 40% above last year, against only 35 % for four weeks. For July sales were up 23% in value; but only 15% in unit quantity, owing to the higher price level. Store **inventories** in the New York area on Aug. 1 were 20% above last year in value. Value of **chain store sales** in July was 26% above last year, with **variety store sales** rising 16% and **mail order sales** up 36%. June **exports,** as reported, were about 1% above last year, against a gain of 1.5% for six months; but some lease-lend shipments were omitted. War goods accounted for 41% of our exports during the first half, against 33% in the first half of 1940 and 43% in the second half. Strategic materials constituted 25% of our **imports** during the first half, against 22% in the first half of 1940 and 29% in the last half. During the first half, 60% of our exports went to the United Kingdom, against only 37% in the same months of 1939.

* * *

While a temporary lull has appeared of recent weeks, **engineering construction** awards for the year to date are 102% above last year. With erection of 700,000 new dwelling units, a 13-year record, expected this year, home builders must make more use of substitutes.

* * *

Railroad operating revenues in July were 31% above last year, with freight revenue rising 34% and passenger revenue up 23%. Southern roads reported the greatest improvement, with a rise of 40%. The carriers will try double, and even triple, loading of freight cars this autumn, where practicable, to handle the peak load.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	July	6,822	6,801	5,595
Pig Iron Production in tons★	July	4,771	4,553	4,054
Shipments, U. S. Steel in tons★	July	1,667	1,669	1,297
AUTOMOBILES				
Production				
Factory Sales	July	463,149	546,274	246,171
Total 1st 7 Months	July	3,611,843	......	2,785,611
Registrations				
Passenger Cars, U. S. (p)	May	515,034	489,074	345,748
Trucks, U. S. (p)	May	72,170	70,269	51,553
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	July	377	376	415
Shipments, U. S. & Canada★ (tons)	July	385	383	424
Mill Stocks, U. S. & Canada★ (tons)	July	170	178	190
LIQUOR (Whisky)				
Production, Gals.★	July	9,444	12,027	8,187
Withdrawn, Gals.★	July	7,215	7,535	8,331
Stocks, Gals.★	July	504,077	502,847	480,938
GENERAL				
Paperboard, new orders (st)	June	525,325	572,522	437,874
Machine Tool Output(millions of $)	July	57.9	63.4	31.5
Railway Equipment Orders (Ry)				
Locomotives	July	178	160	52
Freight Cars	July	10,889	29,299	16,406
Passenger Cars	June	35	32	15
Cigarette Production†	July	18,404	18,499	15,913
Bituminous Coal Production★ (tons)	July	43,300	35,890	42,774
Portland Cement Shipments★ (bb'ls)	June	16,109	16,048	13,223
Commercial Failures (c)	July	908	970	1,175

PRESENT POSITION AND OUTLOOK

Output of passenger **autos** in the 1942 model year will approximate 2,160,000 units—50% of the 1941 model year production, and less than the number scrapped annually. However, cost of re-tooling will be saved and **OPACS** may permit a 10% price increase. August-November output will be only 7% below like period last year. Major curtailment will be by "big three." Defense work will offset losses to most parts makers.

* * *

On Aug. 1 Class I railroads had 89,416 **freight cars** and 603 **locomotives** on order, compared with 19,765 and 168, respectively, on the like date last year. In the first seven months, 43,243 new **freight cars** and 323 new **locomotives** were placed in service, against 40,416 and 201, respectively, in the like period of 1940. Net after taxes reported for the first half by six leading **machine tool** makers was 13% above last year.

* * *

July's **shoe** production is estimated at 45,500,000 pairs, the largest for any like month in history and 34% above last year. Production for seven months increased 25%. The defense program has created no price nor raw material problems for the **Liquor** industry and sales are expected to climb despite higher taxes.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Aug. 16	118.2	118.0	96.7
ELECTRIC POWER OUTPUT				
K.W.H.†	Aug. 23	3,193	3,200	2,714
TRANSPORTATION				
Carloadings, total	Aug. 23	899,750	890,374	761,108
Grain	Aug. 23	43,625	44,375	44,310
Coal	Aug. 23	169,653	167,714	134,931
Forest Products	Aug. 23	50,445	50,365	38,038
Manufacturing & Miscellaneous	Aug. 23	376,914	368,397	298,405
L. C. L. Mdse	Aug. 23	157,102	156,256	151,190
STEEL PRICES				
Pig Iron $ per ton (m)	Aug. 26	23.61	23.61	22.61
Scrap $ per ton (m)	Aug. 26	19.17	19.17	19.08
Finished c per lb. (m)	Aug. 26	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Aug. 30	97.0	98.5	91.5
PETROLEUM				
Average Daily Production bbls.★	Aug. 23	3,975	3,953	3,508
Crude Runs to Stills Avge. bbls.★	Aug. 23	3,975	3,920	3,485
Total Gasoline Stocks bbls.★	Aug. 23	82,566	83,777	85,770
Fuel Oil Stocks, bbls.★	Aug 23	94,308	94,752	106,933
Crude—Mid-Cont. $ per bbl	Aug. 29	1.17	1.17	1.02
Crude—Pennsylvania $ per bbl.	Aug. 29	2.46	2.46	1.48
Gasoline—Refinery $ per gal	Aug. 29	.0850	.0850	.0538

PRESENT POSITION AND OUTLOOK

Electric power output continues to rise at no more than the normal seasonal rate; but margin of increase over last year has widened to 17.5%. The F. P. C. holds that windfall earnings from the defense program should not be regarded as justification for rate reductions; but should be used instead to build up depreciation reserves.

* * *

The **steel operating rate** now hovers between 96% and 97% of recently revised capacity figure which, on June 30, was about 2,000,000 tons greater than on Jan. 1. Shortage of scrap will continue to be chief bottleneck in steel production, even when new plants are ready for operation. Scarcity of new steel makes users more reluctant to scrap old equipment; so that the supply of scrap declines with increased demand. Rising cost of collecting scrap, conjoined with a rigid price ceiling, also tends to dry up the supply. While not generally known, a critical shortage of scrap came dangerously near to losing us World War No. 1.

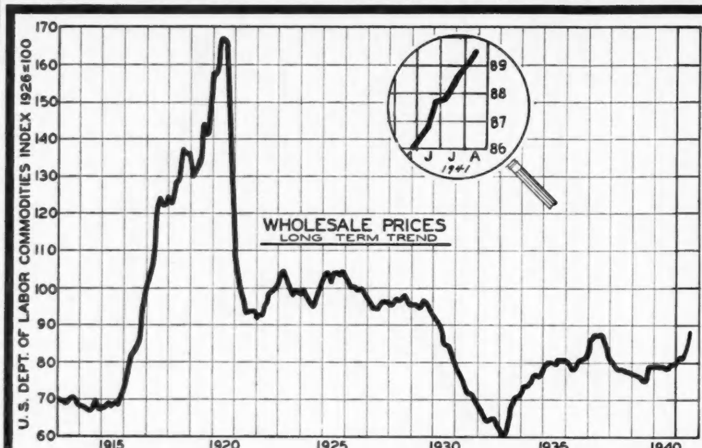
* * *

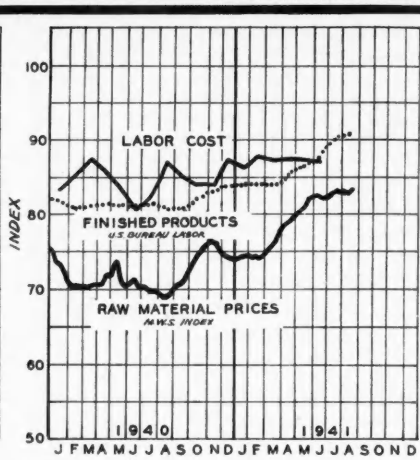
It is contended in the trade that shortage of **gasoline** this winter will amount to only 10% to 15%, unless more tankers are transferred. September demand is estimated at 10% above last year.

†Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1919-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates.(pc) —Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

Before levelling off at the week's close, commodity prices indexes for both spot and futures spurted to new four-year tops. Among agricultural commodities, cotton was the feature, rising over $3 a bale in a single week. The President's veto of the legislation freezing cotton and wheat stocks in loan had scant effect upon prices, as it was generally anticipated that the bill would not get White House approval. Traders have been kept nervous over possible restrictions by OPACS and that such fears are well founded is indicated by the recent ruling that forward buying of lard and cottonseed oil would be prohibited. It is not intended that this ruling bar legitimate hedging and other normal transactions, it was aimed primarily at speculative trading, which previously had boosted prices and created the impression of shortages. Traders, however, remain pretty much convinced that farm commodities will continue to be given the green light, with apparently no one in Washington willing to risk their political necks by even suggesting price controls for agricultural prices.





U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1941 High	1941 Low	Aug. 21	Aug. 28
28 Basic Commodities	152.7	105.6	151.0	152.7
Import Commodities	159.6	104.7	154.4	155.1
Domestic Commodities	148.1	105.5	148.9	151.2

	1941 High	1941 Low	Aug. 21	Aug .28
Domestic Agricultural	158.5	111.4	158.5	155.2
Foodstuffs	164.8	100.5	164.8	161.5
Raw Industrial	146.9	101.3	144.1	143.4

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Aug. 29	16.84	16.36	9.23
December	Aug. 29	17.03	16.66	9.18
Spot	Aug. 29	17.42	16.94	9.89
(In bales 000's)				
Consumption, U. S.	July	929	875	598
Exports, wk. end	Aug. 22	8	4	3
Total Exports, season Aug. 1 to	Aug. 22	18	11	39
Government Crop Est	Aug. 1	10,817	......	11,817(ac)
Active Spindles (000's)	July 23	23,028	21,992	21,919
WHEAT				
Price cents per bu. Chi. closing				
September	Aug. 29	113⅜	112⅜	71⅝
December	Aug. 29	117¼	116⅛	74⅛
Exports bu. (000's) since July 1 to	Aug. 16	21,915	......	15,146
Exports bu. (000's) wk. end	Aug. 16	3,602	1,999	1,256
Visible Supply bu. (000's) as of	Aug. 16	215,539	210,610	157,343
Gov't Crop Est. bu. (000's)	July 1	923,613	......	816,698(ac)
CORN				
Price cents per bu. Chi. closing				
September	Aug. 29	77¼	77¼	61⅛
December	Aug. 29	81⅜	80⅞	57⅛
Exports bu. (000's) since July 1 to	Aug. 16	2,407	......	5,684
Visible Supply bu. (000's) as of	Aug. 16	37,931	37,699	24,905
Gov't Crop Est. bu. (000's)	July 1	2,548,709	......	2,449,200(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Although traders appear to regard reports with skepticism, there is ample indication that weevil damage is the most severe in many years. It has been estimated, for example, that from 40 to 50 per cent of the Georgia crop has been ruined. Thus far this season the into-sight movement has totaled 495,000 bales compared with 484,000 a year ago. Spinners' takings total 699,000 bales, against 370,000 last year. Commissioner of Agriculture Linder of Georgia urged farmers to withhold their cotton from the market and wait for Congress to adopt legislation guaranteeing a higher price.

* * *

Wheat. Wheat prices, along with those of oats and soy beans, reached new four-year highs before profit-taking put in an appearance. There was a noticeable upturn in flour sales over the past week and accounted for some of the strength in wheat prices. Temporary suspension of trading in lard and cottonseed oil futures was responsible for some unsettlement near the close of the week. Traders were also concerned over the possible increase in market offerings as prices came within the loan range.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Aug. 29	12.00	12.00	11.00
Export f. a. s. N. Y.	Aug. 29	11.00	11.00	9.90
Refined Prod., Domestic*	July	82,870	88,560	90,995
Refined Del., Domestic*	July	143,089	115,097	71,226
Refined Stocks, Domestic*	July 31	70,375	98,164	215,823
Copper Sales, Domestic*	July	99,912	82,033	58,467
TIN				
Price cents per lb., N. Y.	Aug. 29	52	52	50⅝
Tin Plate, price $ per box	Aug. 29	5.00	5.00	5.00
World Visible Supply† as of	June 30	38,600	40,777	31,869
U. S. Deliveries†	July	12,575	14,880	7,325
U. S. Visible Supply† as of	July	5,864	2,846	6,567
LEAD				
Price cents per lb., N. Y.	Aug. 29	5.85	5.85	4.90
U. S. Production*	July	48,989	48,224	44,596
U. S. Shipments*	July	54,067	57,969	52,560
Stocks (tons) U. S., as of	July 31	19,172	24,265	47,360
ZINC				
Price cents per lb., St. Louis	Aug. 29	7.25	7.25	6.50
U. S. Production*	July	66,419	62,236	52,098
U. S. Shipments*	July	64,086	63,159	57,606
Stocks U. S., as of*	July 31	9,737	7,404	65,227
SILK				
Price $ per lb. Japan xx crack	Aug. 29	3.57	3.57	2.51
Mill Dels. U. S. (bales)	July	28,528	24,251	22,766
Visible Stocks N. Y. (bales) as of	June 30	53,436	50,341	41,822
RAYON (Yarn)				
Price cents per lb	Aug. 29	53	53	53
Consumption (a)	July	39.4	38.3	32.1
Stocks as of (a)	July 30	3.6	4.6	11.1
WOOL				
Price cents per lb. raw, fine Boston	Aug. 29	1.06	1.06	.87
Consumption, period ending (a)	June 30	41,904	41,032	19,372
HIDES				
Price cents per lb. No. 1 Packer	Aug. 29	15	15	10
Visible Stocks (000's) as of	May 31	12,896	13,016	12,406
No. of Mos. Supply as of	May 31	5.68	5.87	7.23
Boot and Shoe Production, Prs.★	June	39,726	41,087	28,121
RUBBER				
Price cents per lb	Aug. 29	22⅝	22⅝	19⅝
Imports, U. S.†	June	65,093	101,404	53,889
Consumption, U. S.†	June	84,912	71,365	47,834
Stocks U. S. as of	June 30	339,108	359,234	154,313
Tire Production (000's)	July	5,603	6,363	4,788
Tire Shipments (000's)	July	6,456	7,664	4,318
Tire Inventory (000's) as of	July 31	6,235	7,079	9,350
COCOA				
Price cents per lb.	Aug. 29	7.79	7.75	4.34
Arrivals (bags 000's)	July	511	......	657
Warehouse Stocks (bags 000's)	Aug. 22	1,490	1,502	1,170
COFFEE				
Price cents per lb. (c)	Aug. 29	13⅜	13⅜	6¾
Imports, season to (bags 000's)	Aug. 1	98.4	......	1,124
U. S. Visible Supply (bags 000's)	Aug. 1	2,187	1,486	1,374
SUGAR				
Price cents per lb.				
Raw	Aug. 29	3.70	3.70	2.66
Refined (Immediate Shipments)	Aug. 29	5.35	5.35	4.35
U. S. Deliveries (000's)*	July	735	......	756
U. S. Stocks (000's)* as of (rr)	June 30	......	2,106	1,033

PRESENT POSITION AND OUTLOOK

Copper. Supplies are daily becoming more difficult to obtain. Manufacturers of copper during July reported a deficiency in needs against supply totaling 314,951 tons, a record. Consumer sales of copper products in July amounted to 181,828 tons, a gain of 65,087 tons over June sales.

* * *

Tin. Aside from the fact that no steamer arrivals were reported for the week ended August 30, and warehouse stocks remained unchanged for the first time in weeks, there have been no developments in the tin markets. Demand has picked up some and prices have held firm.

* * *

Lead. Recent estimates indicate that consumption of lead is at the rate of 80,000 to 85,000 tons monthly. It is believed that consumers are covered ahead to the extent of about 30% of September requirements.

* * *

Zinc. The September zinc pool has been set at 27% of July production. Producers were relieved that no increase in the allotment was deemed necessary.

* * *

Silk. A possible rapprochement between the United States and Japan, and a lessening in the tension between the two nations, have heartened silk interests. The acquisition of all silk stocks by the Government has caused many serious dislocations in the trade.

* * *

Rayon. Supplies are scarce and doubts prevail concerning the willingness of mill interests to sell stocks at the ceiling levels set by **OPACS.**

* * *

Wool. Mills are operating at capacity and estimates of both civilian and defense needs have been revised upward, well in excess of indicated supplies.

* * *

Hides. Trading picked up noticeably in the closing days of August. Packers, however, continue reluctant to make offerings, despite willingness of tanners to pay maximum prices.

* * *

Rubber. Consumption in July of crude rubber by manufacturers was down nearly 20% from the record June level. The export quota has been increased from 100% to 120%.

* * *

Cocoa. Fears of an impending price ceiling persist. It is rumored that the proposed marketing quota plan will be abandoned.

* * *

Coffee. Brazil and **OPACS** are in disagreement over prices. Brazil wants 13 cents; Washington thinks this too much. Meanwhile, buyers are holding back.

* * *

Sugar. The 1941 marketing has been increased again, bringing the total quota up to 9,002,976 short tons. Lack of shipping accommodations and the low price ceiling have resulted in reduced Cuban supplies and refiners may face closings in the next six weeks.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (p)—Preliminary. (rr)—Raw and refined. ★—Thousands NA—Not available.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Aug. 30	1¼%	1¼%	1¼%
Prime Commercial Paper	Aug. 30	½-¾%	½-¾%	½-¾%
Call Money	Aug. 30	1%	1%	1%
Re-discount Rate, N. Y.	Aug. 30	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Aug. 30	3,554	3,251	2,621
Cumulative year's total to	July 31	16,260	......	12,429
Bank Clearings, N. Y.	Aug. 30	3,193	3,043	2,400
Cumulative year's total to	July 31	15,325	......	12,977
F. R. Member Banks				
Loans and Investments	Aug. 20	29,025	28,874	24,180
Commercial, Agr., Ind. Loans	Aug. 20	6,180	6,146	4,455
Brokers Loans	Aug. 20	444	457	377
Invest. in U. S. Gov'ts	Aug. 20	11,279	11,247	9,411
Invest. in Gov't Gtd. Securities	Aug. 20	3,314	3,312	2,583
Other Securities	Aug. 20	3,744	3,652	3,677
Demand Deposits	Aug. 20	24,455	24,245	20,956
Time Deposits	Aug. 20	5,435	5,434	5,346
New York City Member Banks				
Total Loans and Invest	Aug. 27	12,157	12,127	9,568
Comm'l Ind. and Agr. Loans	Aug. 27	2,375	2,385	1,691
Brokers Loans	Aug. 27	325	317	259
Invest. U. S. Gov'ts	Aug. 27	5,109	5,237	4,030
Invest. in Gov't Gtd. Securities	Aug. 27	1,857	1,854	1,372
Other Securities	Aug. 27	1,554	1,496	1,429
Demand Deposits	Aug. 27	10,965	10,979	9,727
Time Deposits	Aug. 27	764	764	714
Federal Reserve Banks				
Member Bank Reserve Balance	Aug. 27	12,998	13,037	13,516
Money in Circulation	Aug. 27	9,899	9,840	8,006
Gold Stock	Aug. 27	22,716	22,710	20,871
Treasury Currency	Aug. 27	3,178	3,178	3,034
Treasury Cash	Aug. 27	2,378	2,377	2,291
Excess Reserves	Aug. 27	4,990	5,060	6,490

		Latest Month	Previous Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	July	130	204	271
New Capital	July	44	91	45
Refunding	July	86	113	226

COMMENT

Following the last weekly decrease of $70,000,000, excess reserves of all member banks are under the $5,000,000,000 level for the first time since December, 1939. The banks have lost since last October around $2,000,000,000, or around 30 per cent of their excess reserves. Moreover, if the demand of the public for currency continues as strong in the near future as it has been for more than a year, excess reserves will be reduced substantially further. In the last four months of last year, currency circulation rose $800,000,000, but now there is an aggregate $1,000,000,000 more in currency outstanding than was in the hands of the public last Christmas week. From current trend of events, it is likely that several hundred million more excess reserves may be taken from the banks in near future months. Considering these facts, it is possible that the board may be reluctant to raise reserve requirements—as has been rumored in some quarters in the recent past.

* * *

The sharp uptrend in **New York City Member Banks'** business loans—in progress for 17 weeks—finally has been halted, the actual decrease being $10,000,000. The commercial loan figures, however, would have shown an additional increase if it were not for the repayment by Standard Oil of California of $25,000,000, of which a substantial amount had been extended by New York banks. In the 17-week period mentioned, the reporting New York City banks experienced an increase of $297,000,000 in their advances to commerce, industry and agriculture. During the last year commercial loans of the banks in New York rose $684,000,000. In spite of the reduction of $10,000,000 in commercial loans, aggregate loans and investments of New York City banks increased $30,000,000—to a new high of $12,157,000,000.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1941 Indexes High	Low	Aug. 16	Aug. 23
290 COMBINED AVERAGE	56.9	46.3	53.2	54.9
4 Agricultural Implements	99.9	72.2	91.0	94.1
9 Aircraft (1927 Cl.—100)	183.9	137.1	172.3	176.3
4 Air Lines (1934 Cl.—100)	314.1	198.9	254.6	249.2
6 Amusements	30.0	20.8	29.3	30.0H
14 Automobile Accessories	95.7	74.8	84.8	85.2
13 Automobiles	11.1	7.5	9.0	9.2
3 Baking (1926 Cl.—100)	10.7	7.5	7.5	7.6
3 Business Machines	104.6	86.5	100.3	101.4
2 Bus Lines (1926 Cl.—100)	64.3	43.9	53.6	53.9
8 Chemicals	165.5	135.5	160.6	162.9
18 Construction	26.1	19.5	23.9	24.2
5 Containers	203.7	166.0	186.3	187.4
10 Copper & Brass	88.8	68.8	79.7	82.2
2 Dairy Products	27.8	25.5	27.4	27.8h
6 Department Stores	22.3	16.7	21.5	22.1
6 Drugs & Toilet Articles	40.3	31.1	39.1	40.5
2 Finance Companies	182.3	134.8	140.4	141.7
7 Food Brands	92.0	74.9	87.2	88.8
2 Food Stores	45.2	36.7	42.5	43.5
4 Furniture	42.2	33.6	35.9	36.3
2 Gold Mining	703.8	587.6	650.3	641.4
6 Investment Trusts	19.2	15.3	16.8	16.9

(Nov. 14, 1936, Cl.—100)	1941 Indexes High	Low	Aug. 16	Aug. 23
100 HIGH PRICED STOCKS	60.10	51.01	56.58	57.28
100 LOW PRICED STOCKS	48.83	37.78	45.93	46.61
3 Liquor (1932 Cl.—100)	157.3	111.5	147.3	157.3h
9 Machinery	111.9	88.0	98.9	99.7
2 Mail Order	75.6	64.3	66.3	68.1
4 Meat Packing	53.2	40.3	48.5	48.8
11 Metals, non-Ferrous	138.6	109.5	126.0	124.8
3 Paper	14.2	11.0	13.3	13.6
21 Petroleum	86.1	67.4	82.0	82.7
18 Public Utilities	38.6	23.3	24.8	25.0
3 Radio (1927 Cl.—100)	9.9	6.7	7.7	7.7
9 Railroad Equipment	48.0	36.3	42.6	43.0
17 Railroads	11.6	7.5	10.6	11.0
2 Realty	2.9	1.6	2.6	2.6
2 Shipbuilding	129.7	102.3	120.1	123.0
12 Steel & Iron	82.6	62.8	71.0	71.7
2 Sugar	34.8	17.5	31.1	33.8
2 Sulphur	189.8	161.0	186.9	187.9
3 Telephone & Telegraph	41.6	33.2	39.0	39.2
2 Textiles	48.5	33.0	45.3	45.5
3 Tires & Rubber	13.0	9.5	12.3	12.5
4 Tobacco	73.7	62.1	67.9	67.2
3 Variety Stores	213.7	184.8	207.6	208.5
19 Unclassified (1940 Cl.—100)	105.7	86.3	101.2	102.9

H—New HIGH since 1939. h—New HIGH this year.

Answers to Inquiries

(*Continued from page 586*)

per common share as compared with 41 cents per share for the corresponding period of 1940. In the second quarter 1941 earnings were 38 versus 47 cents per share in the comparable period of 1940. In each of the first two quarters of 1941 earnings were slightly lower than for the comparable periods of 1940 and on the six months basis 71 cents per share was earned in 1941 as compared with 88 cents per share in the year 1940. Sales in both quarters were substantially above the amounts reported last year but costs, expenses and depreciation charges were considerably higher. Provisions for Federal excess profits taxes in the first quarter were $179,500, while in the second quarter they were $272,500 as compared with no provisions for this tax in the same period of 1940. Income taxes, of course, were higher, contributing to the less favorable showing. For the year 1940 $1.68 per share was earned as compared with 76 cents per share for the year 1939.

The capitalization of the company at the close of the year 1940 was represented by funded debt of $4,686,379 while equity interests were represented solely by 1,272,437 shares of no par capital stock. The financial position at that time was strong with total current assets of $7,650,752 including $1,870,362 in cash and marketable securities of $998,965 as well as inventories figured at lower of cost or market of $2,560,414 as compared with total current liabilities of $2,542,462.

Increased consumption caused by the higher level of business in general augurs well for capacity output for paper companies over the near term. Aided by the discontinuance of shipments from the Scandinavian countries, the competitive position has been substantially improved. It is believed that earnings for those companies which are well integrated, having their own pulp requirements such as Union Bag & Paper Corp., are moderately favorable for the near term. With selling prices more or less agreed upon for the balance of the year, it is not expected that the company will run into any difficulty with the Office of Price Administration at this time. The stock of this company has not been a leader marketwise but we do feel that with an improvement in earnings over the balance of the year and barring technical conditions unfavorable to price advances that the stock will experience at least moderate improvement. Therefore, it is our opinion that your commitment is worthy of retention at this time as a fair speculation.

Life Savers Corp.

I am getting worried about my 50 shares of Life Savers Corp. stock which cost $38 per share. While earnings have been quite steady in recent years and dividends liberal what will happen if the Government restricts sugar supplies such as in the last war? Has the company expanded its line of confections—how are sales holding up? Is the company hard hit by taxes? Do you look for the continuation of dividends at present rate? I am more interested in stable income and safety of capital than appreciation. Will you please favor me with your advice as my income is necessary for living expenses?—Mrs. W. C. L., Chicago, Ill.

In the first quarter of 1941 Life Savers Corp. earned 74 cents per share as compared with 65 cents per share in the first quarter of 1940. In the second quarter of 1941 61 cents per share was earned as compared with 80 cents per share for the corresponding quarter of 1940. Consequently, on a six months basis earnings in 1941 were $1.35 per share versus $1.45 per share for the corresponding period of 1940. 1941 results were after provision for excess profits tax. The taxes of $343,410 in these six months include a provision of $91,000 for anticipated higher rates in proposed tax bills. These results do not include exchange losses on conversion in respect to Canadian dollars which are currently lower than United States dollars but will be reflected in the annual report at the close of the year. For the year 1940 $2.96 per share was earned as compared with $2.98 a share for the year 1939. Earnings in recent years have been relatively stable, fluctuating between $3.74 per share for the year 1930 and $2.15 per share for the year 1933. Regular dividends at the rate of $1.60 per share have been declared since 1934 plus varying extras since 1936. Such dividends have been quite liberal representing the major portion of net earnings.

The financial position of the compan is strong. At the close of 1940 total current assets of $3,800,653 including cash of $1,189,198 and inventories at cost not exceeding market of $937,142 compared with total current liabilities of $667,044. Capitalization was represented solely by 343,772 shares of $5 per capital stock. There was at that time 6,368 shares not included in this amount which were held in the treasury of the company. There is no funded debt or preferred stock outstanding.

Sales of mint candies sold by this company account for approximately 90 per cent of total domestic sales

while in the fruit-drop field the company garners about 60 per cent of the sales. Other products such as medicated throat tablets tend to diversify products of the company which are somewhat confined due to its field of operations. Sugar is one of the main ingredients and the company has had a policy of maintaining a large reserve for future use. The outlook for such supplies seems to be considerably different if compared with the World War days. Ample supplies are on hand and in fact the Government has been maintaining a quota system restricting output in order to maintain stable prices. If hoarding of sugar should be started by consumers it is quite a probability that quotas will be raised which would, in our opinion, take care of the situation.

It is estimated that earnings for the full year 1941 at best will not exceed the 1940 total and may run slightly below that figure. The annual dividend rate of $1 per share plus extras is expected to continue and it is quite likely that dividends will be about the same as in the year 1940. The outlook for the near term for those desiring stable income is sufficiently promising to warrant temporary retention of holdings for income. Volatile market movement is not a characteristic of this stock and therefore is not to be expected except in moderate proportions.

As I See It!

(Continued from page 551)

came before us—our ancestors who took a wilderness and transformed it into a land of milk and honey. It is worth fighting for — worth uniting for — and I doubt there is any American fully understanding the catastrophic dangers we are facing who would hesitate to do his share.

For Profit and Income

(Continued from page 585)

last year from a high of 28¾ to a low of 14. That the earnings position of the company justifies current strength in the stock might be judged by the fact that earnings during the fiscal year ended March 31, 1941, were at the best level since 1934. Present volume of sales is understood to be running about double that of the like period of last year. The company used to report on a calendar-year basis so that no direct comparison is available on the earnings of $2.72 a share shown for the latest fiscal year; but, for the year ended December 31, 1940, earnings after charges totaled 20 cents a share. For a number of years the company has been up against severe price cutting in its important industrial alcohol division, but that situation now gives promise of improvement. The price structure has already strengthened under stimulus of increased demand from normal users such as the processors of lacquers, textiles, chemicals, etc., while the takings by the rapidly expanding powder industry have recently been mounting sharply—and this end of the arms program is only beginning to get under way. The defense program should have a further pronounced effect upon alcohol sales in that such anti-freeze compounds as ethylene glycol and other premium mixtures which for several years have grown in use for anti-freeze purposes at the expense of alcohol are now being diverted to liquid-cooled airplane motors. It is to be doubted if the production of these substitutes can keep pace with both war and peace demands. Consequently, it seems probable that the coming winter will witness a large increase in the use of alcohol as an anti-freeze, which will mean a further addition to U. S. Industrial Alcohol's profits.

Wartime Economy Booms Chemicals

(Continued from page 582)

industry are expected to make relatively better showings than a year ago, such increases will not be uniform. Some will do much better than others. In war times it is naturally expected that the explosives industry should do well. The expectation will probably be realized, but a gain of more than 15 per cent in sales is not probable and an increase of only 10 per cent is more likely. This is due mainly to the present lack of production capacity which is being remedied as fast as possible. However, the powder makers should do as well as average on a profit basis. Sulphur sales, on the other hand, are not likely to be sharply higher than a year ago due mostly to the fact that the sulfuric acid makers are operating at capacity and have been doing so for some

months past. Takings of sulphur by the tire makers are likely to decline but they will be compensated for by increased demand from other groups of sulphur users.

The alcohol makers are in a better than average position. First because the industry has a more than ample supply of raw materials, second because they have more than ample production capacity to meet any demand, and third, because many items such as glycol and methanol will be so scarce that the public and many others will be required to use denatured ethyl alcohol for solvent and antifreeze purposes despite the fact that it is not a completely satisfactory substitute. As it now stands, it would seem as if the alcohol makers will be able to sell all of the material producible, for the first time since the industry entered the realm of big business.

The greatest boom will probably be in the synthetic organic group. These products include most of the newer solvents derived from coal tar and petroleum gases and which are now being used in the making of plastics, explosives, solvents and synthetic rubber substitues. This branch of the chemical industry will probably continue to grow long after the emergency has passed and in the interim will have developed many new products in a time that would not have been possible under normal circumstances.

Consolidated Aircraft Tops the Field in Profit Gain

(*Continued from page* 583)

what is more, if there are no interruptions in output between now and the end of the year, second half year production has a very good chance of being double that of the record first six months of this year.

It can hardly be expected that the company's output will continue to expand on the same scale for an indefinite period of time. There are bound to be limiting factors which might include an eventual scarcity of labor—skilled to the work required—and materials such as aluminum, rubber, zinc and other important items. According to official information, the company now has more than 30,000 employees as compared with about 16,000 only about a year ago. In order to assure itself of a continuous supply of workers, Consolidated is already training several hundred women workers in light mechanical jobs where deftness of fingers is of more importance than physical brawn. This process will be a continuous one which will relieve skilled male workers for more arduous duty and thus fill immediate needs. The problem of materials is more difficult to solve although Consolidated Aircraft is in a favored class as far as strategic material allotments are concerned and, in the interim, many successful substitutes are constantly being developed and incorporated in the company's products.

Another record reported for the first half year was even more satisfactory to the stockholders than a mere recital of vastly greater quantities of new goods produced and shipped. That was, of course, the report of a new record in earnings per share of common stock despite the heavy penalties of income and excess profits taxes. In the first six months of 1941, Consolidated Aircraft, after making allowances of $4,260,000 for possible taxes, had remaining more than $2,750,000 for its shareholders or the equivalent of $4.72 a share. This sum was better than double the earnings for all of 1940 and was almost twice as great as the earnings in any full previous year, not excluding the former record year 1938. No interim report was issued in 1940 although in the face of the 1941 statement any reasonable stockholder should be willing to condone the omission. Comparison between the results of the first half of this year with those of the second half will make much more interesting material for discussion although it can hardly be expected that second half earnings will keep close pace with second half production and be duoble the earnings for the first six months period. Higher tax brackets and mounting excess profits taxes will take an increasingly large part of net income, although in spite of such things earnings of between $6 and $8 per share are within the distinct realm of possibility.

Since the close of the half year period, the company has redeemed all of its $3 dividend preferred stock which was outstanding at about 23,820 shares at the end of 1940. This stock was redeemed at $55 a share plus accrued dividends on

August 30. The preferred issue was convertible into common stock on a basis of two shares of common for one of preferred. It is not reported how much of the stock was converted but if it was all exchanged into common stock, there would be still only slightly more than 626,000 shares of common stock outstanding.

For the longer term, Consolidated Aircraft has equally as good chances of continuing to work on a profitable basis as any of the other large companies in the industry. There is a strong possibility that the military demand for airplanes will outlive the present crisis both for expansion and maintenance of military airpower at home and abroad. There will surely be a sustained commercial demand as well, for before the industry is able to supply both the military and commercial aircraft demands, commercial airplane inventories will probably be at very low ebb. The outlook for earnings is not so easy to discern for it involves the imponderables of higher taxes and material costs. It is, however, most probable that no operating losses will be incurred as long as volume holds at even close to current levels although it is also possible that 1941 will be the high water mark for Consolidated's net earnings for several years to come.

Motor Industry's Arms Business Soars

(*Continued from page* 574)

while armament orders are coming in fast, the bloom is pretty well off the substantial new business which the company had gained through past introduction of its new models. Prior bond interest, too, stands in the way of early resumption of dividends. Other comparatively unimpressive technical action is evident in Hudson, which has been selling well under a crucial 1939 base, and, in fact, close to its all-time low around 3, Packard and Hupp Motor, which are selling near their record-low levels.

Quite by contrast, the action of White Motor is outstanding. This stock reveals the favorable picture of ascending tops, with strong bases. As a matter of fact, after the stock dipped to the firm 1939 base (in May, 1940) it rebounded sharply to establish a substantial ceiling above the 1938 and 1939 ceilings. The stock now is in the upper stratum of this ceiling, and with its earnings prospects good and price under net quick assets per share, it gives promise of further favorable action.

Among the many auto accessory companies, technical action in numerous instances is highly impressive, reflecting exceptional success in turning out parts for armament lines. One of the outstanding in this respect is Timken-Detroit Axle. Since its 1939 bottom, the stock's price has established a steady uptrend pattern, clearing its 1937 high late in 1940 and selling well above it this year. The price, of course, accompanied a spurt in earnings, which followed two decades of continuous experimental research and development work on the Army's mechanization and motorization problems. It is reported, in fact, that at the start of our arms program, Timken-Detroit Axle was the only manufacturer in its field in a position to begin at once on the output of certain armament parts.

Bower Roller Bearing is another stock in the auto accessory field which has been acting impressively, reflecting the quick transfer of a large part of facilities to output for armaments. The stock based around the 25 range in the great May, 1940, break, soared back to the range of previous highs (including that of 1929), based again slightly under these highs and this year penetrated all preceding highs with a rise through 38. Without going into technical explanation, it may be pointed out that some of the other accessory stocks showing favorable price patterns are Bendix Aviation, Bohn Aluminum, Clark Equipment, Spicer Manufacturing and Thompson Products. On the other hand, among those showing relatively poor technical price patterns are Electric Auto-Lite, General Tire, Raybestos-Manhattan, Briggs & Stratton and Timken Roller Bearing.

Readjust Your Securities for Protection, Income, Profit

(*Continued from page* 570)

include the chemicals, the two leading motor manufacturers, electrical equipment companies, certain automobile equipment manufacturers, metal fabricators, etc.

To obviate the threat of higher taxes, the shares of a company with a simple capital structure, as a general rule, should be more desirable than those preceded by preferred shares and funded debt. The leverage factor resulting from the latter type of capitalization could well have the effect of intensifying the decline of per-share earnings under the weight of higher taxes. A company with a single issue of stock and no funded debt would seem to have a better chance of absorbing a heavier tax toll, while at the same time maintaining per-share earnings at a satisfactory level.

Again the talk of inflation is rife and more and more investors are wondering how best to protect their capital and income against a substantial rise in living costs which they feel to be inevitable. It is not the province of this discussion to debate the pros and cons of inflation. The point has been previously made in this publication (June 14, 1941), that while undoubtedly some increase in the cost of living and some rise in price levels would occur, there was no basis for assuming the necessity of diverting bonds and other securities to real estate, commodities, and other so-called "inflation hedges." The writer has on several occasions in the past made the point in these columns that in the final analysis an investment which qualifies as a sound medium under present conditions and meets the requirements of the investor is likely also to prove a satisfactory medium in a period of price inflation. Convincing precedent for this premise is afforded by a comparison of the various common stock groups through the decade 1915-1925, which embraced the inflationary period of the first World War and the subsequent deflation. Some of the groups which gave the best over-all investment results included railway equipment, machinery, retail trade, automobiles and chain stores. Of the so-called commodity groups, such as sugar, copper, leather, rubber and oil, oil shares made the best showing, although substantially inferior to that of the manufacturing group.

If income is a vital factor, the most logical choice of issues for the investor seeking to insure a return sufficiently large to meet increased living costs would be selected me-

dium grade preferred stocks in place of low yielding bonds, and common stocks where dividend prospects are such as to promise a liberal but dependable yield.

Accompanying this discussion are several compilations designed to exemplify the points which have been made. These compilations, however, are typical rather than complete and, moreover, should be used by individuals having in mind at all times their own particular investment requirements and objectives. Obviously, in view of the stand which has been persistently taken in these columns, none of the suggested issues should be viewed in the sense of a *long term* investment, but as issues which appear favorably situated at the present time while subject to continuous reappraisal in the light of such changes which cannot now be forseen or anticipated.

No Post-War Depression Why?

(Continued from page 557)

techniques being no mystery; and that there will be little or no chance of a post-war climax of additional price and inventory speculation being added—as in 1919-1920—to the war inflation. Thus a quite prompt, but relatively short, price-inventory deflation is not only possible but probable. We cannot foresee its degree of severity because we cannot foresee the degree of preceding excess. But if the Government does not fumble too long with the price brakes in the period ahead of us, there will be more than a wishful-thinking basis for doubting that post-war price deflation will be as painful as those of 1920-1921 or 1937-1938.

And now let us note the most significant change of all that has come about since the World War. This is the development, not only here but in all major nations, of governmental monetary-credit management and of governmental "economic planning" which means not only compensatory government intervention in the economic cycle but acceptance—at least by a majority of the voting populace—of the concept that it is an obligation and responsibility of government to see to it, by one means or another, that a satisfactory volume of economic activity, employment and national income are maintained. Long before the war, in most countries—especially Great Britain, Germany and the United States—the area of "public investment" was expanding much more rapidly than the area of private investment.

We can deplore this, view it with grave misgiving, wonder about its ultimate fiscal dangers, speculate as to what kind of economic-social system it is leading us to—but it is undeniably a fact. And you will stand a very good chance of going far wrong if you try to guess any specific limit—in point of time or total of Federal debt—beyond which the alternatives will be a German-type wrecking of the value of our money or a sudden and clearly recognizable over-turn to State Socialism.

I don't know how much Federal debt we can "stand" and neither does anybody else. All debt, public or private, must be serviced out of income produced. While individual debts must be "paid off" or refunded—mostly refunded—total debt in a capitalist country is never reduced except by the defaults of a major depression period. Private debt expansion reached its peak shortly after the 1929 crash at a level of roughly \$85,000,000,000, declined substantially over the next decade and now appears to be static at a level around \$73,000,000,000. Total state and local debt for the better part of the past decade has been static at about \$18,000,000,000. Federal debt—and in all these rough figures we are speaking only of long term debt—increased in the World War from almost nothing to about \$26,000,000,000, declined to some \$16,000,000,000 in 1930 and has now expanded to approximately \$50,000,000,000.

It is altogether likely that, on balance, the Federal Government for some years to come will solely account for the further expansion in total of debt. Whether such expan-

sion will be another $50,000,000,000 or $100,000,000,000, I don't know. You may or may not feel less worried if I remind you that this nation's *total* long term debt expansion between 1910 and 1930—a single generation—was not much less than $100,000,000,000.

Many "conservative" newspapers —which looked with deep dismay at the New Deal's peace-time deficits—are now shouting for all-out armaments (and some for all-out war), although they know full well that the cost will run into countless billions. I mention this as a significant example of the way a strong and productive nation's rising debt can be rationalized over an indefinite period of years.

Regardless of the world situation at the time, the arms spending will not be abruptly reduced or cut off—unless the Government then is in the hands of men naive as to both politics and economics. It would be impossible to take up the slack propmtply through public works, alone or plus increased production of types of consumer goods which were curtailed during the emergency. Moreover, a tremendous vested interest in the "benefits" of armament activity will have been built up on the part of politicians, labor, farmers and business men participating in defense work directly or indirectly.

The general outline of the post-war economic plan is already shaping up at Washington. It calls for readjusting our production at a high level—represented by $100,000,000,000 or more of national income in terms of 1940 prices—rather than a depression level. It visions, for an indefinite time into the post-war era, defense spending of not less than $10,000,000,000 a year and public works of $10,000,000,000 a year; and it assumes that increased production of *consumer* goods will take up another $10,000,000,000 of the slack.

Nobody can blueprint for you the future relation between government and private enterprise. We have already moved a very long way from *laissez-faire* to centralized governmental regulation. We are evidently going to continue moving further in the same direction. If you want to label the ultimate destination as "Socialism" or "State Capitalism" I will not argue the point—except to say that, right or wrong, I have enough faith in the instinct of the American people to believe that both democracy and the framework of the private capitalist system will survive.

Very likely the rewards of the average capitalist will tend to be smaller than formerly *in relation to total production*. But if the capitalist is up against a kind of shrinking profit margin per unit of production—as has not infrequently been the fact in competitive private enterprise—what hope is there to tie to except the possibility of a much bigger volume? Today we are seeing the Government organize a record-breaking volume of defense production by private enterprise. Must we assume that it is impossible for similar cooperative effort to function in time of peace?

You can take it as certain that wherever free people still have a vote, they will continue to demand a higher living standard and increased personal security. In this country, if I read the temper of our people correctly, they don't expect to get it exclusively from private enterprise nor exclusively from government planning. They expect to get it from some still vaguely formulated combination of the two. They can get it, of course, only out of increasing production and national income.

If the future brings high production, is it not conceivable that the aggregate money reward of the capitalist classes may average more than in the past, even though a smaller ratio of the whole? On the other hand, suppose that your worst fears are realized some time in the dim future. Suppose that within a decade or so, private capitalism will have become extinct. In that case, what good will you get out of the savings that you are now holding in frightened idleness? Can you be at all sure that over the inflationary and transitional years ahead either cash in the bank or gilt-edged bonds will work out better than a diversified list of equities of strong, seasoned and flexible American enterprises?

And now a final note. Obviously, Great Britain—if she survives—faces a far more difficult post-war economic readjustment than we do. It would seem that the British capitalist classes must have strong reason to fear the coming "revolution by consent"—the fastening of permanently and greatly broadened government controls on their economic system, the reduced freedom of private enterprise.

But if we may judge by the London stock market—which in its quiet way has for months been showing more hope and confidence than the New York market—they view both the intermediate and longer future as far from hopeless for private enterprise and this despite *present* governmental regimentation and taxes far more onerous than we have or are likely to get.

One reason may be that the British capitalist classes—to whom social reform is an older and more familiar story than it is here—have more faith in the underlying common sense and fair play of the British masses than American capitalists have in our people.

A further explanation may be that intelligent Englishmen reason—as I do—that the most likely post-war reaction from the long nightmare of Fascism and the almost equal disgust with Russian Communism will be a reaction to no political extreme but to a middle-of-the-road moderation. That, I believe, will be the nearest we get to a "return to normalcy"—for "normalcy," in the sense of a rigid status quo, never existed for any length of time and never will.

Keeping Ahead on the Industrial Front

(Continued from page 567)

gain of not less than 50 per cent for the coming year and probably more.

Household Appliances on the Spot—

Makers of all types of household appliances—in which total dollar volume usually compares not unfavorably with volume of automobile sales—are searching frantically for substitute materials, while waiting for O. P. M.'s decision on the scope of curtailment and hoping it will not be too severe. Whatever O. P. M. says in the immediate situation, it's a good bet that over the coming twelve months shortages of materials will force a cut of not less than 50 per cent from the inflated output of the past twelve months. No amount of substitute materials can significantly change this general picture. As manufacturers of home

appliances have facilities and skills for fabricating metals, there is no good reason why they should not be invited or drafted largely, if not wholly, into defense work. Excepting in the case of such companies as General Electric and Westinghouse, whose capital goods lines are more profitable than household lines, the makers will lose more—quite apart from taxes—from curtailed civilian business than will be gained from defense orders. Companies at present either entirely or predominantly dependent upon household appliances are in for some rough going.

New Records for Merchandising Volume

(*Continued from page 580*)

There is likely to be little change in this situation. The variety stores seem to have reached a stabilized sales volume and it is not likely to increase despite sharply higher consumer buying power. Higher costs and taxes will be difficult to pass on to the consumer except by increasing the price while at the same time decreasing the quality of the merchandise. Such actions are not conducive to higher sales and, at best, the outlook for variety store profits is mediocre. The probable effect of priorities and rationing on all retail store sales will be found in a comprehensive article on the subject in another part of this magazine.

The Impact of War Rationing

(*Continued from page 562*)

of the emergency. On the other hand, a lack of salable merchandise on the part of certain retailers may eventually curtail the volume of radio advertising and thus reduce the profits from broadcasting although up to this time no reduction in broadcast time sales is apparent. The same factors may eventually affect periodical and newspaper product advertising volume.

With priorities claiming much material for Government needs and the same Government being determined to restrict civilian spending in an attempt to avoid any strong inflation so as to make more funds available for Government bond buying, it would seem as if the retail stores are about to meet the same set of difficulties that plagued them during the first war. Current conservation plans not only call for the elimination of many consumer items but also expect to restrict the number of competitive items in any one group to a relative few by standardizing styles in many articles as compared with the legion used by retailers to stimulate sales at the present time. Regimentation of styles may or may not be successful. Chances favor the latter. If, however, the Government is able to enforce its edict then the stores will be at a disadvantage because no one will be able to offer any article that all other competitors do not also possess. At the present moment, retail sales are at better than seasonal high levels and the coming Christmas season promises to be the largest on record. At any event, retail stores have not as yet been beset with price fixing—see the recent "run" on silk stockings—and will probably continue to obtain some merchandise to sell. Because the consumer is no longer able to buy great quantities of semi-durable goods such as refrigerators, automobiles, etc., is no sign that he—or she—will suspend all buying and put surplus funds into Government bonds. They didn't during the last war when we were actually engaged in the conflict and are not likely to do so now when we have not as yet been formally committed to fight. What is more likely is that the con-

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These books may be ordered from The Magazine of Wall Street book department.

sumer will buy whatever materials the stores have to offer despite poorer quality in some instances and much higher prices. However, the stores are not likely to make large profits as they did in 1917 or 1918 because of taxes and higher costs. Yet it is probable that they will do better than was averaged in many recent pre-war years.

There will unquestionably be a number of small manufacturers and retailers who will not be able to continue in business under conditions as they now promise to be. These companies will probably all be the ones whose abilities are incapable of conversion to more necessary work or whose capital is insufficient to carry them through an in-between period. Needless to say, this type does not have securities generally available to the public and thus it holds no investment interest. It is also quite probable that the workers now employed in these marginal businesses will be able to sell their services elsewhere while the owners again will enter business when more capital has been acquired or changing conditions warrant the move.

War rationing will unquestionably have certain adverse affects upon the nation's life and habits but from what now can be seen they will not be quite so drastic as some would have us believe and in other cases —gasoline rationing for instance— the inconvenience will be only of a temporary nature. From the investor's angle, retention of securities of strong companies engaged mostly in the production of basic materials and those of companies who further process these materials seems to entail the least risk.

Transcontinental Rails Enjoy Heyday

(*Continued from page 565*)

probably be moderately lower when the actual rates are finally agreed upon.

For all of the railroads, a 7½ per cent increase in wages would come to a total of approximately $150,000,000 and representing an amount equal, in very many instances, to the net income available for common dividends in 1940 and, in a lesser number of instances, a sum greatly in excess of the stockholders' share of that year's profits. The effect of such an increase in wages would sharply be felt by the Western division roads although only in the case of the Northern Pacific would the raise be greater than the road's total net income in 1940. To cite several examples, a 7½ per cent wage increase for the Atchison system would mean additional payments equivalent to $2.35 a share of common stock as compared with 1940 earnings of $2.69 a share. Great Northern would fare somewhat better, since the same percentage of wage increase would be equivalent to only $1.10 a share of common stock, as compared with actual 1940 earnings of $4.08 a share. As mentioned earlier, Northern Pacific would have operated at a deficit had the 7½ per cent wage increase been in effect last year, for the higher pay rate would have been equal to approximately $0.95 a share of common and actual earnings were only $0.83 a share. A similar increase in wages would be equal to about $2 a share for Southern Pacific, which had 1940 net income equal to $2.47 a share, while the Union Pacific would have paid out a sum equal to $2.25 a share from actual total earnings of $6.96 a share.

Estimates of the effects of higher wages must, however, be tempered by the knowledge that most of these roads will have extraordinarily high gross incomes this year and probably next year. Any increase in operating costs will therefore find some offset in the fact that they will reduce the amount of taxable income by a certain amount which should, in all fairness, be considered in arriving at the net effect of whatever wage increases may finally be decided upon.

Taken as a whole, even the new tax schedules are not an insurmountable burden for the roads in general. And they will not be unless the invested capital option for arriving at taxable incomes be further modified or eliminated. Of course, all of the roads operating at a profit will be subject to the new rate of income tax as well as the special 10 per cent tax on the amount by which net income exceeds the average earnings rate of the years 1936 to 1939, but as yet only a few of the roads are earning enough on their huge invested capitals to make them vulnerable to excess profits taxes, as they are now defined. Certainly none of the transcontinental rails are so situated, for in the first six months of this year none of them earned as much as 5 per cent upon their invested capital and it is not probable that any of them will do so within the next year. And, moreover, most of the roads have a number of deductible items such as abandonments and retirements upon which they can fall back when needed to reduce taxable income.

The remaining major uncertainty facing all the railroads is the possibility of eventual Federal control as was imposed in the last war. Apparently the Administration would prefer to see the roads remain in the hands of their private owners, but should the railroads be unable to render all of the service required of them, they may be taken over "in the national interest." The railroads would dislike federalization more than the Government and have been bending every effort to supply adequate equipment and impoved facilities to avoid any traffic jams of importance. This year will probably be a crucial one for the roads as far as transportation facilities are concerned for they were almost all late in recognizing the need for large additional quantities of equipment, and shortages of materials are likely to hamper the future delivery of freight cars, locomotives and track materials despite the fact that orders have been placed for some time. The peak in traffic is expected to be reached some time during October. If the roads get by that period without serious difficulty, they may be expected to be in a position to avoid being taken over by the Government because of their inability to render required service. Chances are, relinquishment of private control to the Government will be avoided, but the subject will be a recurrent one and from time to time will affect the market for the shares.

From a market standpoint, most of the railroad shares have done well and no particular division has been shown greater investor preference than another. The transcontinental group has, perhaps, more possibilities for improved showings than most of the other groups and these prospects are likely to find reflection in an improved demand for the shares of the roads mentioned in this study in the event that a stock market of greater than recent confidence develops.

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